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ABSTRACT

The first and longest section of this publication is a comparative analysis summarizing the impacts of the two Unemployment Insurance (UI) Self-Employment Demonstration Projects in Washington State and Massachusetts. Based on the first wave of post-project follow-up surveys, this evaluation report provides results on the net impacts of each project on the following: business formation and survival rates; participants' employment and earnings from both self-employment and wage and salary employment; participants' duration of unemployment and receipt of UI benefits; and job creation. In the Washington and Massachusetts demonstrations, self-employment assistance promoted rapid reemployment of project participants, directly increased job creation, and significantly increased participants' total employment. One additional result is reported for the Massachusetts demonstration: self-employment assistance significantly increased total earnings of participants. The second part of the publication focuses on the recent national legislation authorizing self-employment assistance (SEA) programs. This section includes the text of the legislation itself, North American Free Trade Agreement Implementation Act SEA Programs, and a Department of Labor program letter providing guidance to the states in developing their SEA program. A listing of 80 papers in the UI Occasional Paper Series is appended. (YLB)

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Self-Employment as a Reemployment Option: Demonstration Results and National Legislation

Unemployment Insurance
Occasional Paper 94-3

U.S. Department of Labor
Employment and Training Administration

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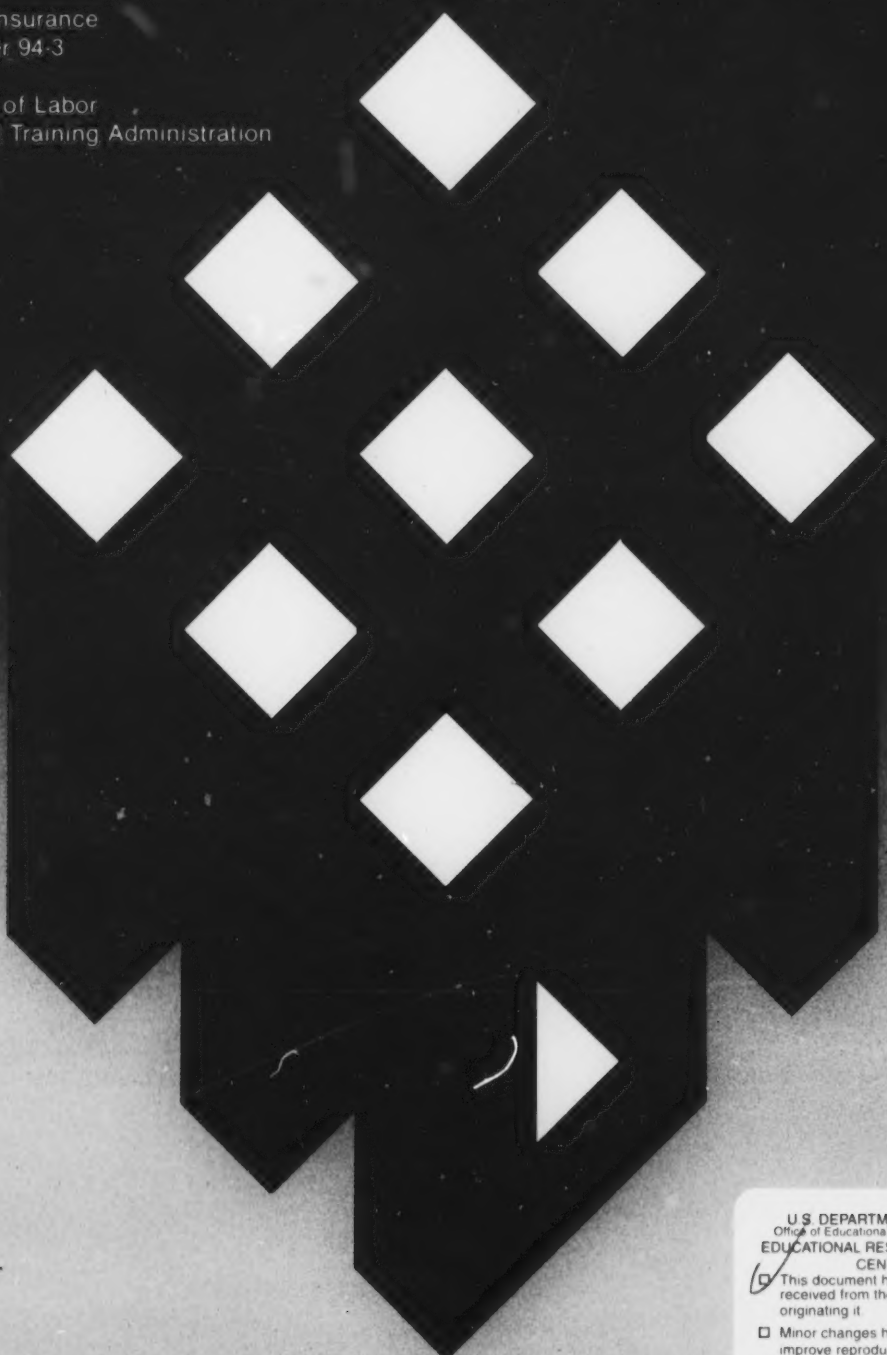

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Self-Employment as a Reemployment Option: Demonstration Results and National Legislation

Unemployment Insurance
Occasional Paper 94-3

U.S. Department of Labor
Robert B. Reich, Secretary

Employment and Training Administration
Doug Ross, Assistant Secretary

Unemployment Insurance Service
Mary Ann Wyrsch, Director

1994

This report was prepared for the U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, with ABT Associates under contract number 99-8-0803-98-047-01. The authors of the individual paper are: Jacob M. Benus, Michelle L. Wood, and Neelima Grover of ABT Associates. Since contractors conducting research and evaluation projects under government sponsorship are encouraged to express their own judgment freely, this report does not necessarily represent the official opinion or policy of the U.S. Department of Labor.

The Unemployment Insurance Occasional Paper Series presents research findings and Analysis dealing with unemployment insurance issues. Papers are prepared by research contractors, staff members of the unemployment insurance system, or individual researchers. Manuscripts and comments from interested individuals are welcome. All correspondence should be sent to UI Occasional Papers,
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During the process of planning, designing, implementing and evaluating American self-employment experiments, we have depended on the knowledge and efforts of a great number of people.

At the outset, we knew that the impetus for these programs came from the 17 industrialized nations which have self-employment programs for the unemployed, and we looked to them for guidance. Due to the Department, we were fortunate to have access to the expertise wisdom of Ann Heald of the German Marshall Fund, who gave us guidance. The German Marshall Fund of the United States also provided a grant to the Interstate Conference of the Employment Security Agencies to Fund a study tour to Great Britain, France and Sweden to observe their self-employment programs. Participants in the experiments--State, Federal and research contractor staff--were able to see three programs in action.

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We made use of the findings of the FIRMSTART group--composed of staff from Massachusetts, New Jersey and Michigan--that did

developmental work on the issue of self-employment and produced the report, "FIRMSTART: An Examination of Self-Employment", under a grant from the U.S. Department of Labor. Kay Stratton of the Massachusetts Job Training Partnership Act program, directed this project.

The Department established an expert panel of self-employment practitioners and research to give us guidance in designing these experiments. The panel consisted of: Marc Bendlick, Bendlick and Egan Economic Consultants; Gary Burtless, Brookings Institution; John Daniels, Service Corps of Retired Executives; Kathy Keeley, Women's Economic Development Corporation; Robert Friedman and Rona Feit, The Corporation for Enterprise Development; and Steve Mangum, Ohio State University.

It is the States that have made these projects work. They have helped design, implement, monitor, and collect the data needed to evaluate them. In Washington State, the key individuals at the Washington, Employment Security Department have been Kathy Countryman and Judy Johnson, who have overseen and managed the project. Service delivery has been provided under the guidance of Dave Daughtery, Director of the Business Assistance Center of the Washington Department of Trade and Economic Development, and his staff including Earl True and Claire Phillips.

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database. Staff working on these projects include John Chang, Norm Harvey, Wayne Gordon, Doug Scott, Shu-Lin Tung and Wayne Zajac.

Finally, these projects would not have occured without the dedication and tireless efforts of Jon Messenger, the project officer for both of these demonstrations. Jon has worked on every aspect of their design, implementation, monitoring and policy analysis.

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INTRODUCTION

I. Overview

The U.S. Department of Labor (DOL) has been conducting a series of national demonstration projects exploring innovative ways of using unemployment insurance (UI) to assist unemployed workers in making the transition to new jobs. As part of this research effort, DOL sponsored two experimental demonstration projects that tested the viability of self-employment as a reemployment option for unemployed workers. These projects, the Unemployment Insurance (UI) Self-Employment Demonstration Projects, were designed to assist UI recipients interested in self-employment to "create their own jobs" by starting a business venture. The projects also used experimental research methods, including a control group, so that they could provide evaluation results that tell us whether self-employment programs for unemployed workers can be effective and efficient as full-scale programs.

The results of the Washington and Massachusetts demonstration projects have been carefully evaluated by an independent research firm and are summarized in a report included in this publication, "A Comparative Analysis of the Washington and Massachusetts UI Self-Employment Demonstrations." The results of these projects clearly demonstrate that self-employment is a viable reemployment option for some unemployed workers. As a direct result of these demonstration projects, the Congress enacted legislation that allows States to establish self-employment assistance programs for unemployed workers as part of their unemployment insurance (UI) programs. This legislation and a Department of Labor directive providing guidance on this program are also included in this publication.

II. Self-Employment as a Reemployment Option

An alternative option for promoting the reemployment of dislocated workers is self-employment. The growing recognition of both the contribution of microenterprises to the creation of employment opportunities and the relatively modest financial and managerial requirements of self-employment for participation by workers have generated interest in using self-employment as a tool for assisting unemployed workers in returning to work. Unlike other reemployment services, self-employment assistance is designed to promote direct job creation for unemployed workers--to empower the unemployed to create their own jobs by starting small business ventures. These very small startup firms, often called "microenterprises", are typically sole proprietorships with one or at most a few employees, including the owner/operator.

While the primary goal of self-employment assistance is direct job creation for the unemployed worker, the microenterprises started by these individuals may also generate some additional jobs that could be filled by other dislocated workers. Thus, a self-employment assistance program for dislocated workers provides an opportunity to integrate labor market policy and economic development policy in a synergistic relationship, helping dislocated workers to return to work more rapidly and simultaneously providing a modest boost to economic growth and job creation in their communities.

In addition, an increasing number of dislocated workers now come from professional, technical, and managerial occupations--occupations which may make them particularly well-suited for self-employment. In the Washington demonstration, 37 percent of all participants came from professional, technical, and managerial occupations. In the Massachusetts demonstration, 45 percent of participants came from these occupations.

III. Project Descriptions

The Department sponsored two experimental projects that tested the efficacy of assisting unemployed workers to set up their own microenterprises. These demonstration projects are being operated in the States of Washington and Massachusetts, in each case being jointly operated by the State employment security and economic development agencies. These demonstration projects provide a basic model of a self-employment assistance program for unemployed workers. The basic model includes two key components: financial assistance and microenterprise development services. Financial assistance was provided either in the form of lump-sum payments (either grants or loans) of business start-up capital or periodic payments to provide an income stream during the business startup period. Microenterprise development services includes such services as entrepreneurial training, business counseling, peer support groups, and technical assistance.

The UI Self-Employment Demonstration Projects tested packages of self-employment assistance for UI recipients on permanent layoff: a combination of financial payments ("self-employment allowances") and business development services, consisting of business training, counseling, technical assistance, and peer support. The employment security agency offered and paid the self-employment allowances, while the State economic development agency and local service providers were responsible for providing the business development services. The Washington demonstration tested financial assistance in the form of lump-sum payments, while Massachusetts tested biweekly payments equal to an individual's regular UI benefits.

The Washington demonstration project, known as the SEED Project, was initiated by DOL in early 1987 and funded by Departmental research resources. The Massachusetts demonstration project, known as The Enterprise Project, was authorized by the Omnibus Budget

Reconciliation Act of 1987; it is funded from the Massachusetts UI trust fund account. Project operations in Washington State occurred during 1989-91 and are now completed. Operations in the Massachusetts demonstration occurred in three distinct enrollment periods, the first of which began in 1990; the third and final enrollment period was completed in 1993.

Both of the UI Self-Employment Demonstration Projects include a sequence of intake activities that served to screen out those UI recipients with insufficient interest in and/or motivation for self-employment. For example, interested UI claimants were required to attend an initial orientation session, which provides them with information about the demonstration and a "reality check" about the pros and cons of self-employment. Individuals who attended this session then submitted a timely, complete, and acceptable application to be eligible for selection into the projects. Thus, out of all UI recipients eligible to participate in the self-employment projects, only a small proportion (3.6 percent in Washington State; 2.0 percent in Massachusetts) actually completed the intake activities and qualified for selection into the project.

The Washington SEED Project provided selected claimants with self-employment allowances in the form of lump-sum payments of business startup capital; these payments are equal to the remainder of their entitlement for UI benefits. This demonstration also provided participants with a series of business training seminars, unlimited individual business counseling and technical assistance, and regular meetings of a peer support group. A total of 755 eligible UI recipients were selected into the demonstration over the period of project operations, with another 752 selected into a control group. Of those individuals selected for the demonstration, 450 received lump-sum payments averaging $4,225 per person to start their own microenterprises. Business starts were primarily in the services and retail trade, with some small-scale manufacturing and construction.

The Massachusetts Enterprise Project provided selected claimants with biweekly self-employment allowance payments, equal to their regular UI benefits, to supplement their earnings while they are planning and establishing their new businesses. Like Washington, the Massachusetts demonstration also provided a series of business training workshops, unlimited individual business counseling and technical assistance, and peer support. Over its three years of project operations, 614 claimants were selected as demonstration participants, with another 608 claimants selected into a control group. Project participants received biweekly payments of about $530 to $540 per person while working full-time on planning and operating their business. Nearly half of the Massachusetts participants started their own microenterprises, with the vast majority of business starts in the services industry.

IV. Summary of Demonstration Results

Evaluation results from the UI Self-Employment Demonstration Projects in Washington State and Massachusetts clearly indicate that self-employment is a viable reemployment option for some unemployed workers. The potential target population for a self-employment assistance program for unemployed workers is relatively small: between 2 and 4 percent of UI recipients are interested in pursuing self-employment. However, of those individuals who are interested in becoming self-employed, a large number--about half--actually do start a business. These results are consistent with the experiences of self-employment programs for the unemployed in other industrialized nations (e.g., self-employment programs in Great Britain and France have served between 2.5 and 4.5 percent of unemployed workers annually).

The comparative analysis of the UI Self-Employment Demonstration Projects in Washington State and Massachusetts Project was based on the first wave of post-project phone follow-up surveys, conducted an average of 18-21 months following random assignment into the test and control groups, supplemented by data from the automated Participant Tracking System developed for each project. Based on the results of this analysis, both the Washington and Massachusetts demonstrations reduced the duration of unemployment and the receipt of unemployment benefits by promoting rapid reemployment. The Washington demonstration reduced the duration of UI benefit receipt by an astounding 6.1 weeks. However, when the lump-sum payments received by Washington participants are factored in, the total payments to participants were significantly higher than UI benefits paid to the control group. The Massachusetts demonstration (which provided biweekly payments, rather than lump-sum payments) reduced UI benefit receipt of participants by 1.9 weeks, resulting in net savings to the UI trust fund of about $700 per participant for the first two years of project enrollments.

According to results from the Washington demonstration, self-employment assistance not only promoted rapid reemployment of project participants, but also had other positive impacts on participants. Specifically, the Washington results show that:

- Self-employment assistance directly increased job creation by doubling the number of business starts; 52 percent of participants entered self-employment versus 27 percent of controls, enabling more participants to create their own jobs. 63 percent of participants who started a business were still operating one year later.

- Self-employment assistance significantly increased participants' total employment (i.e., the combination of self-employment and wage and salary employment). On average, participants were employed **two months** longer than the control group.

Evaluation results from the Massachusetts demonstration show that impacts on project participants were also strong and positive for the first two years of the project (third-year enrollments were still in progress at the time of data collection for this report). In addition to promoting rapid reemployment of participants, the self-employment assistance package also:

- Self-employment assistance directly increased job creation by increasing the number of business starts, although not quite as much as in Washington State; 47 percent of participants entered self-employment as compared to 29 percent of controls. 77 percent of participants who started a business were still in business a year later.

- Self-employment assistance significantly increased participants' total employment, as compared to the control group. On average, participants were employed **three months** longer than the control group.

- Self-employment assistance significantly increased total earnings of participants, compared to the control group (in Washington, participants' earnings were higher than those of controls, but the increase was not statistically significant). In Massachusetts, project participants earned $7,600 more than control group members over the follow-up period.

In conclusion, the comparative analysis of the UI Self-Employment Demonstration projects states that:

> "Given these results, we believe that self-employment programs like Washington State's SEED Demonstration and Massachusetts' Enterprise Project represent viable policy tools for promoting the rapid reemployment of UI claimants."

A final report on the UI Self-Employment Demonstration Projects, which will be completed by the end of 1994, will include impacts based on longer-term follow-up (two and one-half to three years) plus a benefit-cost analysis.

V. National Legislation

A provision allowing States to establish self-employment assistance (SEA) programs as part of their UI programs was enacted into law as part of Title V (Transitional Adjustment Assistance) of the North American Free Trade Agreement (NAFTA) Implementation Act (P.L. 103-182). This provision, signed on December 8, 1993, allows States the option to offer self-employment assistance as an additional tool to help speed the transition of dislocated workers into new employment. States will need to enact legislation that conforms to the Federal legislation to be able to establish SEA programs.

The Department had earlier included the SEA program option as part of the Administration's proposal to provide a final extension of the Emergency Unemployment Compensation (EUC) program in September 1993. However, this provision was not include in the bill reported out of the House Ways and Means Committee for the EUC extension legislation. When Congressman Wyden of Oregon proposed including this provision in the NAFTA legislation, the Department provided technical support in developing the final legislation.

In States that operate SEA programs, UI claimants identified through worker profiling--automated systems that use a set of criteria (a "profile") to identify those claimants who are likely to exhaust their UI benefits and need reemployment assistance--will be eligible for self-employment assistance. State SEA programs will provide participants with periodic (weekly or biweekly) self-employment allowances while they are getting their businesses off the ground. These support payments will be the same weekly amount as the worker's regular UI benefits, but participants can work full-time on starting their business instead of searching for wage and salary jobs and could also retain any earnings from self-employment. In effect, this provision removes a barrier in the law--a barrier that forced unemployed workers interested in self-employment to choose between receiving UI benefits and starting a business.

Self-employment program participants would be required to work full-time on starting a business. They would also participate in self-employment assistance--such as entrepreneurial training, business counseling and other activities--to ensure that they have the skills necessary to operate a business. The program also provides safeguards to ensure that self-employment allowances could be funded out of each State's account in the UI Trust Fund at no additional cost.

The self-employment provision was effective upon enactment of the legislation. The Department issued guidelines regarding self-employment assistance programs In February 1994, and States have the flexibility to establish their own programs within those guidelines. Several States have already introduced legislation that would offer self-employment as a reemployment option to eligible unemployed workers.

The self-employment assistance provision in NAFTA authorized SEA programs for a period of five years. The Clinton Administration has include a provision making SEA programs permanent in Section 253 of the proposed Reemployment Act of 1994 (H.R. 4040).

VI. The Remainder of This Publication

This publication is divided into two parts. The first and longest section is the comparative analysis summarizing the impacts of the two UI Self-Employment Demonstration Projects in Washington State

and Massachusetts Project based on the first wave of post-project follow-up surveys. This evaluation report provides results on the net impacts of each project on: business formation and survival rates; participants' employment and earnings from both self-employment and wage and salary employment; participants' duration of unemployment and receipt of UI benefits; and job creation.

The second part of this publication focuses on the recent national legislation authorizing self-employment assistance (SEA) programs. This latter section includes both the legislation itself and also a Department of Labor program letter providing guidance to the States in developing their SEA programs.

Jon Messenger
Steve Wandner
April 1994

Associates Inc.

A COMPARATIVE ANALYSIS OF THE WASHINGTON AND MASSACHUSETTS UI SELF-EMPLOYMENT DEMONSTRATIONS

JANUARY, 1994

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EXECUTIVE SUMMARY

The Washington State Self-Employment and Enterprise Development (SEED) Demonstration and the Massachusetts Enterprise Project are the first two federally-sponsored Unemployment Insurance (UI) Self-Employment Demonstration projects designed to assist unemployed workers in the United States. This report presents a comparison of the preliminary findings from these two demonstration programs.

The Washington UI Self-Employment Demonstration, known as the SEED Demonstration, was initiated on a pilot basis in one site beginning in September 1989 and was then implemented in five additional sites in February 1990. Demonstration intake activities continued through September 1990, with business support services available to demonstration participants through March 1991.

To allow rigorous evaluation of program effectiveness, the SEED Demonstration used a classical experimental design with random assignment of eligible claimants interested in starting their own businesses. In this experiment, individuals were randomly assigned to either a treatment group, that was eligible to receive all program services, or to a control group, that was not eligible to receive program services, but remained eligible for regular UI benefits. A total of 755 new claimants were enrolled in SEED in the six sites and offered demonstration services; 752 new claimants who applied to SEED were assigned to the control group.

The Massachusetts UI Self-Employment Demonstration, known as the Massachusetts Enterprise Project, was authorized under Section 9152 of the Omnibus Budget Reconciliation Act (OBRA) of 1987. This three-year demonstration project was designed to test the effectiveness of providing self-employment assistance for those unemployed workers who are likely to exhaust their UI benefits. As mandated by the legislation, the Massachusetts demonstration also used a classical experimental evaluation design with half the eligible UI claimants receiving self-employment services (the treatment group) and the other half receiving regular UI services (the control group).

The Massachusetts Enterprise Project began operations in May 1990. Enrollment into the Enterprise Project took place in three distinct phases; the first enrollment phase took place in 1990 (May - September), the second in 1991 (April - September), and the third in 1992-93 (February 92 - May 93). In this document we review some of the preliminary results from the first two enrollment periods (1990 and 1991). During these two enrollment periods, a total of 521 UI claimants were randomly assigned to either the treatment (263) or to the control group (258).

In this report, we compare the early project impact results from the Washington demonstration with early project impact results from the Massachusetts demonstration. Both analyses are largely based on data from the Participant Tracking System (PTS), an on-line database system developed by the U.S. Department of Labor (DOL) to provide information about project participants and project services, and the first followup telephone survey of treatment and control group members in both projects. The first Washington telephone survey was conducted, on average, 21 months after random assignment; a total of 1204 (or 80%) responded to this survey. In Massachusetts, the first telephone survey was conducted, on average, 19 months after random assignment; a total of 449 (or 86%) responded to this survey. Thus, the observation period is 21 months in Washington and 19 months in Massachusetts.

In both Washington and Massachusetts, only a relatively small fraction of targeted UI claimants met the initial demonstration requirements of attending an orientation and submitting an application. In Washington, four percent of targeted UI claimants completed the initial requirements and were eligible for SEED participation; in Massachusetts, an even smaller proportion, two percent, met the same requirements and were eligible for Enterprise Project participation. Thus, while many profess an interest in self-employment, relatively few choose to pursue self-employment when the opportunity arises.

The remaining main results of the comparative analysis are presented in the following four sections: (1) self-employment impacts, (2) wage and salary impacts, (3) combined self-employment and salary impacts, and (4) other outcomes. All of the reported impacts below are statistically significant, indicating that the impacts can confidently be attributed to the program.

Self-Employment Outcomes

SELF-EMPLOYMENT EXPERIENCE: *In both the Massachusetts and Washington demonstrations, treatment group members were more likely than controls to have at least one self-employment experience during the observation period.*

SELF-EMPLOYMENT AT Followup SURVEY: *In both the Massachusetts and Washington demonstrations, treatment group members were more likely than controls to be self-employed at the time of the followup survey.*

SELF-EMPLOYMENT TERMINATION RATES: *Neither the Massachusetts nor the Washington demonstrations had a significant impact on the likelihood of ending a self-employment spell during the observation period.*

TIME IN SELF-EMPLOYMENT SINCE RANDOM ASSIGNMENT: *In both Massachusetts and Washington demonstrations, treatment group members spent more time in self-employment than controls. In Massachusetts, the impact was an increase of approximately 1.5 months in the time spent self-employed; in Washington, the impact was approximately 4.0 months.*

EARNINGS FROM SELF-EMPLOYMENT: *In Massachusetts, there was no significant effect on earnings from self-employment. In Washington, treatment group members earned more than controls during the observation period from self-employment.*

Wage and Salary Outcomes

WAGE AND SALARY EXPERIENCE: *The Massachusetts demonstration did not affect the likelihood of having a wage and salary job during the observation period. The Washington demonstration, on the other hand, reduced the likelihood of having a wage and salary job during this period.*

TIME IN WAGE AND SALARY EMPLOYMENT: *In Massachusetts, treatment group members worked approximately one month more than controls in wage and salary employment. In Washington, treatment group members worked approximately one month less in wage and salary employment.*

EARNINGS FROM WAGE AND SALARY EMPLOYMENT: *In Massachusetts, treatment group members earned significantly more than controls from wage and salary employment. In Washington, treatment group members earned significantly less than controls from wage and salary employment during the observation period.*

Combined Self-Employment and Wage and Salary Outcomes

EMPLOYMENT EXPERIENCE: *Both Massachusetts and Washington demonstrations had positive impacts on the likelihood of employment (in either wage and salary or self-employment) during the observation period.*

EMPLOYMENT AT Followup: *Both Massachusetts and Washington demonstrations had positive impacts on the likelihood of employment (in either wage and salary or self-employment) at the time of the followup survey.*

TIME EMPLOYED: *Both Massachusetts and Washington demonstrations had positive impacts on total time employed (in either wage and salary or self-employment) during the observation period.*

TOTAL EARNINGS: *The Massachusetts demonstration had a positive impact on combined wage and salary and self-employment earnings. The Washington demonstrations had no impact on combined earnings during the observation period.*

Other Outcomes

JOB CREATION: *Neither the Massachusetts nor the Washington demonstration had a statistically significant impact on the employment of nonparticipants. Both demonstrations, however, had a positive, statistically significant impact on the employment of participants.*

UNEMPLOYMENT: *Both demonstrations reduced the length of the first unemployment spell.*

UI BENEFITS: *Excluding the lump-sum payment in Washington, both demonstrations reduced UI benefit receipt during the first benefit year. Including the lump-sum payment, the Washington demonstration increased total payments to participants during the first benefit year. (The Massachusetts demonstration did not have a lump-sum payment.)*

Conclusions

The results of this study indicate that both demonstrations increased the likelihood of self-employment and both accelerated the timing of entry into employment. In addition, we find no demonstration impacts on total earnings in Washington, but significant positive impacts on total earnings in Massachusetts. The Massachusetts impacts on total earnings, however, are largely driven by large, positive impacts on wage and salary earnings, rather than by impacts on self-

employment earnings. This somewhat surprising result will be analyzed in greater detail in the final report.

Given these results, we believe that self-employment programs like Washington State's SEED Demonstration and Massachusetts' Enterprise Project represent viable policy tools for promoting the rapid reemployment of UI claimants. While the impacts of such self-employment programs on earnings remain ambiguous, their impact on employment outcomes appear robust.

1

INTRODUCTION

Over the past several years, the U.S. Department of Labor (DOL) has launched a series of experimental demonstrations to investigate alternative reemployment strategies for unemployed workers. The reemployment strategies tested in these demonstrations have included job search assistance, occupational retraining, relocation assistance, and reemployment bonuses. The focus of these demonstrations has been to test approaches that promote rapid reemployment into wage and salary jobs.

In addition to these demonstrations that focused on reemployment into wage and salary jobs, DOL also initiated two experimental demonstrations to test the efficacy of self-employment as an alternative reemployment strategy. In the late 1980's, the Washington State and Massachusetts UI Self-Employment Demonstrations were designed to test the ability of the employment security and economic development systems to help UI recipients start their own businesses. Both of these demonstrations provided participants with business development assistance, in the form of entrepreneurial training, business support services and financial assistance.

In this report we present preliminary results from the Washington and Massachusetts UI Self-Employment Demonstration projects. The analysis covers, on average, the first 19 months after random assignment in Massachusetts and the first 21 months after random assignment in Washington. A final report on each of the two demonstrations will cover the first three years after random assignment.

Since the two demonstration projects have been described in detail in earlier reports, a complete description of the projects and their implementation will not be repeated here.[1] Rather, we present only those aspects of the two demonstrations that are important in understanding the preliminary findings regarding the impacts of the demonstration projects. The final reports on each project, scheduled to be completed in 1994, will include complete descriptions of the programs, their impacts, and their cost-effectiveness.

WASHINGTON SELF-EMPLOYMENT AND ENTERPRISE DEVELOPMENT (SEED) DEMONSTRATION

The first federally-sponsored project in the U.S. to test the use of self-employment programs as a reemployment strategy for unemployed workers was the Washington Self-Employment and Enterprise Development (SEED) Demonstration Project. The SEED Demonstration was initiated on a pilot basis in one site beginning in September 1989 and was then implemented in five additional sites in February 1990. Demonstration intake activities continued through early September 1990, with business support services available to demonstration participants through March 1991.

To allow rigorous evaluation of program effectiveness, the SEED Demonstration used a classical experimental design with random assignment of eligible claimants interested in starting their own businesses. These individuals were randomly assigned to either a treatment group, that was eligible to receive all program services, or to a control group, that was not eligible to receive program services, but remained eligible for regular UI benefits and services. Using this experimental design, the impacts of program services can be measured directly by the difference in outcomes between the treatment and control groups. A total of 755 new claimants were enrolled in SEED in the six sites and offered demonstration services; 752 new claimants who applied to SEED were assigned to the control group.

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[1] For a complete description, the reader is referred to *Self Employment Programs for Unemployed Workers*, Unemployment Insurance, Occasional Paper 92-2, U.S. Department of Labor, 1992.

The early impacts of the SEED Demonstration were recently evaluated and reported in *Does Self-Employment Work for the Unemployed?*[2] Longer run impacts of the SEED Demonstration will be analyzed and presented in a final report, to be completed in 1994.

THE MASSACHUSETTS UI SELF-EMPLOYMENT DEMONSTRATION (THE ENTERPRISE PROJECT)

A second self-employment demonstration was mandated by Section 9152 of the Omnibus Budget Reconciliation Act (OBRA) of 1987. This Act authorized up to three States to participate in a self-employment experimental demonstration. In 1988, Massachusetts signed an agreement to participate in the demonstration. In designing the Massachusetts UI Self-Employment Demonstration (Enterprise Project), the researchers, the Department of Labor, and the State of Massachusetts were guided by two objectives. The first was to develop a program, consistent with the authorizing legislation, designed to facilitate self-employment for UI claimants who choose this avenue. The second objective was to develop a design that would permit a scientifically valid program evaluation.

The provisions of the authorizing legislation mandated a number of important demonstration design features. For example, the Act required that the demonstration target self-employment services to UI claimants who are "likely to receive regular or extended benefits for the maximum number of weeks that such compensation is made available under the State law during such benefit year" (Section 9152(i)). Another important provision of the legislation was to require participating states to reimburse the Unemployment Trust Fund for any excess costs incurred as a result of the demonstration (Section 9152(c)). Excess costs arise when demonstration treatment group members, on average, collect more self-employment allowances than the amount of UI benefits they would have collected in the absence of the demonstration (as measured by the experience of control group members). Finally, the authorizing legislation required the demonstration to be implemented over a three-year period.

The Massachusetts Enterprise Project began operations in May 1990. Enrollment into the Enterprise Project took place in three distinct phases. The first enrollment phase took place

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[2] Jacob Benus et al., *Does Self-Employment Work for the Unemployed? First Impact Analysis of the Washington State Self-Employment and Enterprise Development (SEED) Demonstration*, Abt Associates, December, 1993.

in 1990 (May - September), the second in 1991 (April - October), and the third in 1992-93 (March 92 - April 93). In this document we review the preliminary results from the first two enrollment periods (1990 and 1991). During these two enrollment periods, a total of 521 UI claimants were randomly assigned[3] to either the treatment group (263) or the control group (258).

ORGANIZATION OF THE REPORT

The experimental and operational design of the SEED Demonstration and the Enterprise Project are presented in Chapter 2. The focus of this section is to compare and contrast the features of the two demonstrations. This discussion highlights those design features that are likely to affect program outcomes in each of the demonstrations.

Each of the data sources used in our analysis is described in Chapter 3. First, we describe the administrative data sources used in support of this preliminary report. In particular, we describe the Participant Tracking System (PTS), an on-line database system developed by DOL for the demonstration projects, which provides data on personal characteristics, demonstration services, business information, and UI benefits information. We then describe the followup survey collected specifically for the evaluation of the SEED Demonstration and the Enterprise Project. Finally, we present an analysis of the survey response rates and describe the characteristics of the survey respondents.

Chapter 4 compares the implementation procedures followed in the two demonstrations. Specifically, we describe the flow of claimants from recruitment through application and random assignment in each of the demonstrations. We also provide information on the comparability of samples across the two demonstrations. We then compare the types of services provided as well as the timing of those services. Finally, we compare the participants' own assessment of the program services.

The evaluation of demonstration impacts on employment and earnings is presented in Chapter 5. First, we compare demonstration impacts on self-employment outcomes, including

[3] In 1990, 207 UI claimants were randomly assigned; in 1991, 314 were randomly assigned.

likelihood of entry into self-employment, self-employment duration, and self-employment earnings. Next we compare program impacts on wage and salary outcomes such as employment duration and wage and salary earnings. We then combine self-employment with wage and salary outcomes and compare program impacts on total employment duration and total earnings.

Impacts on other outcomes are presented in Chapter 6. Specifically, we compare demonstration results on job creation and Unemployment Insurance outcomes. In Chapter 7 we consolidate the results presented in previous sections and summarize the main findings of the study.

2

EXPERIMENTAL AND OPERATIONAL DESIGNS

In this section we compare and contrast the experimental and operational design features of the Washington and Massachusetts demonstrations. We focus on the features of the demonstrations that are important for understanding and interpreting the impact results that will be presented later in this report.

As an aid for understanding the two experimental designs, we present in Exhibit 2.1 a flow chart depicting the intake and random assignment procedures used in each of the demonstrations. As indicated by the exhibit, the overall flow is similar in both demonstrations. The main differences in the experimental design of the two projects are discussed in the following subsections.

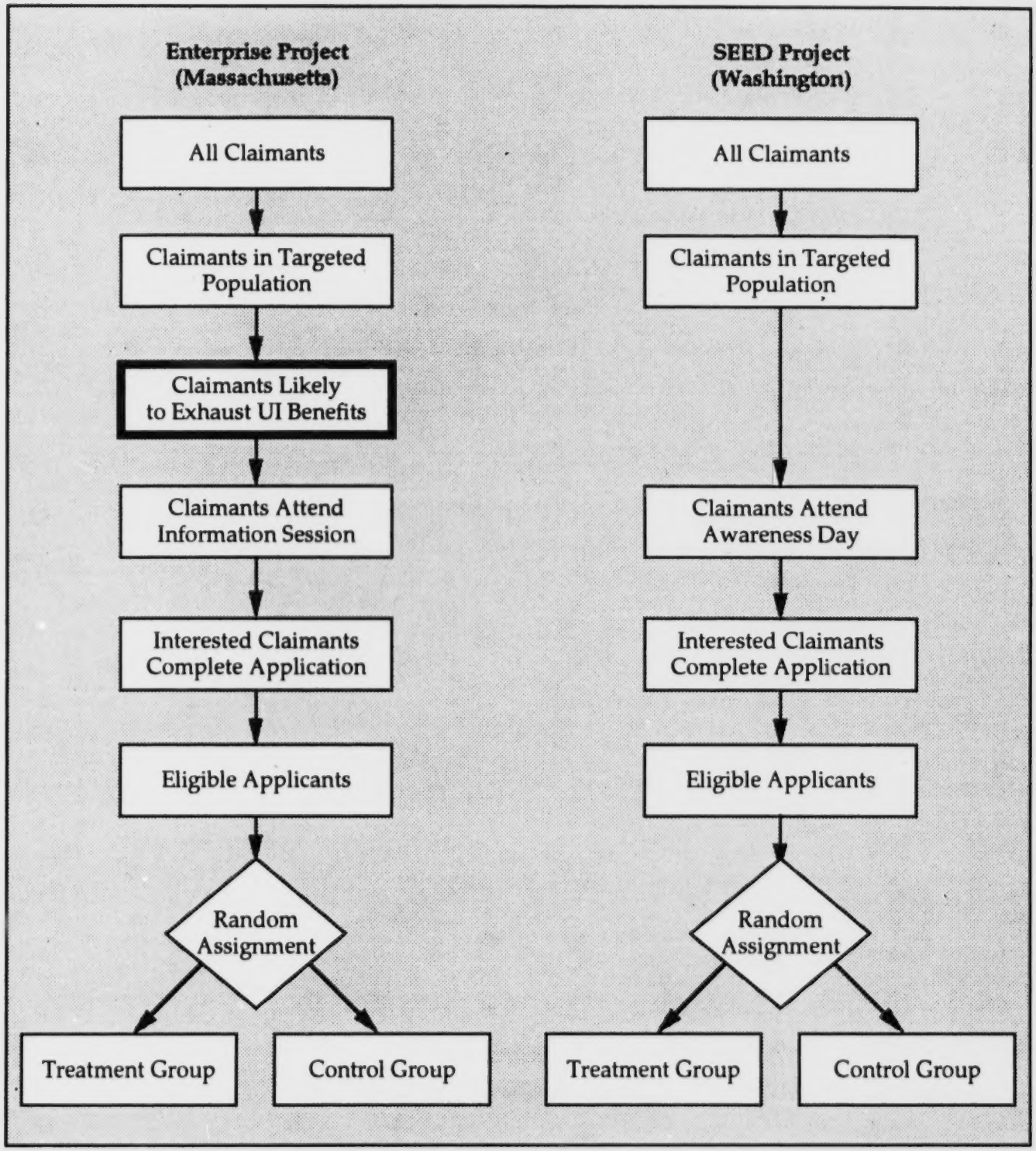
TARGETING DEMONSTRATION PARTICIPANTS

Both the Massachusetts and the Washington projects targeted new UI claimants. In both states, the following claimants were excluded:

- Persons filing interstate claims;
- Claimants who were on temporary layoff (i.e., on standby) or who were full-referral union members; and,
- Claimants under 18 years of age.

In addition, the Washington demonstration excluded persons filing claims backdated more than

EXHIBIT 2.1
ENTERPRISE PROJECT AND SEED PROJECT
INTAKE AND ASSIGNMENT PROCESSES



14 days and the Massachusetts demonstration excluded claimants eligible for less than 26 weeks of UI benefits.

Since the authorizing legislation for the Massachusetts demonstration required that the program focus specifically on UI claimants who were likely to exhaust their UI benefits, further targeting was necessary to select those claimants likely to exhaust benefits. To implement this legislative requirement, sample selection was based on an algorithm that predicted each claimant's likelihood of UI benefit exhaustion.[4] Using this algorithm, a numerical probability of exhaustion was calculated for each new Massachusetts claimant in the target population. Entry into the demonstration was then restricted to those with predicted probability of exhausting UI benefits that exceeded a specified threshold.

RECRUITING PARTICIPANTS

The next step in both demonstrations was to recruit claimants interested in self-employment. Once identified, eligible claimants were sent a letter inviting them to attend an initial information session. To ensure that the most highly motivated claimants were identified for the self-employment program, strict time limits were established for attending this session. Only claimants who met these time constraints were permitted to continue in the demonstration. In this way, self-screening eliminated the less motivated claimants from the demonstration.

In both demonstrations the information sessions (called "Awareness Day" in Washington) were held in the local UI office in which the claimant filed his or her claim. Sessions were held each week in each office in the demonstration[5]. The key difference between the Washington and Massachusetts information sessions was in the format of the presentations. In Washington, a local UI office staff person took attendance, introduced a set of two videos (covering the key features of SEED and the risks and rewards of self-employment), showed the videos, and

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[4] For details on the algorithm, see Benus, et al. "Massachusetts UI Self-Employment Demonstration Interim Report to Congress" in *Self-Employment Programs for Unemployed Workers*, U.S. Department of Labor, Employment and Training Administration, 1992.

[5] In Massachusetts, the schedule for the sessions was modified in the second year of operations to conduct the sessions on a bi-weekly basis in the three sites with the lowest number of new UI claimants.

answered questions at the end of the session. In Massachusetts, on the other hand, the presentations were given by a local UI office staff member and a business development expert. The local UI staff member described the demonstration procedures and distributed applications at the end of the session; the business development experts gave a presentation on the risks and rewards of self-employment.

The purpose of the initial information session was to provide claimants with sufficient information about the self-employment program to decide whether or not to apply for program services. During the session, claimants were provided with basic information about the risks and rewards of self-employment and the key features of the demonstration. The Massachusetts sessions lasted approximately 60 minutes; the Washington sessions lasted approximately 45 minutes.

APPLICATION AND RANDOM ASSIGNMENT

The next step in the intake process was the application. At the conclusion of the initial information sessions, claimants who were still interested in applying to the program took application materials home to complete. Applicants were required to return the completed materials within seven days. The completed applications contained personal background information and a description of the applicant's proposed business idea.[6]

The applications were reviewed by project staff for timeliness and completeness. The business ideas were also reviewed to ensure that they conformed to established project guidelines.[7] Those applicants who submitted the applications on time and satisfied the project guidelines were eligible for random assignment. Eligible applicants were then randomly assigned to either the treatment group that was eligible to receive business development services and financial assistance or to a control group that was not.

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[6] The applications differed slightly in the two demonstrations.

[7] For example, the business idea must be legal in the state and the participant must have day-to-day control of the business.

BUSINESS START-UP SERVICES AND FINANCIAL ASSISTANCE

The flow chart in Exhibit 2.2 highlights the differences in business start-up services in the two demonstrations. We summarize these below.

Massachusetts

The first step for Massachusetts participants was to attend an Enterprise Seminar, a one-day session that was conducted by one or more business experts.[8] This intensive training session followed a standard curriculum in all sites and covered topics such as developing a business mindset, business organizational structures, marketing, business plan development, personnel issues, and business management. Within two weeks of the Enterprise Seminar, participants were required to attend an individual counseling session with their business counselor. This counseling session lasted approximately one hour. In addition to this required counseling session, participants were encouraged to attend additional counseling sessions. Massachusetts participants were also required to attend Enterprise Workshops, a series of six, two-hour sessions on the following topics[9]:

- Marketing;
- Personal effectiveness;
- Cash flow;
- Financing;
- Legal requirements and insurance; and,
- Bookkeeping/taxes.

The six sessions were offered over approximately a twelve-week period. During this period, participants were encouraged to develop a business plan with the assistance of their counselors.

The financial assistance component in Massachusetts included payment of self-employment allowances (or stipends) equal to the individuals' regular bi-weekly UI benefits. In addition, participants were exempt from the regular UI work search requirements while in the

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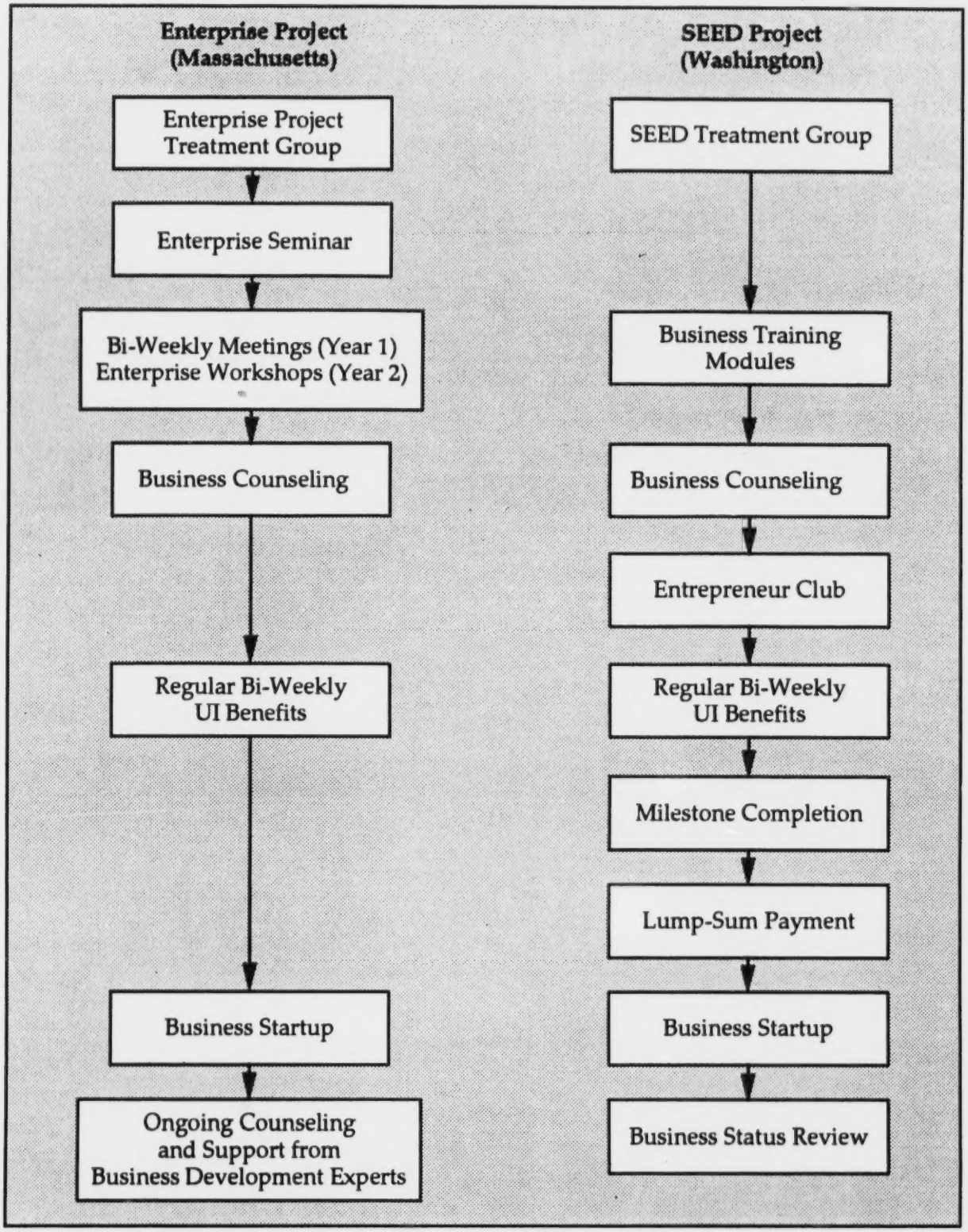
[8] In 1990, this session was eight hours long. In 1991, it was shortened to 4 1/2 hours.

[9] During 1990, the sessions were called Bi-Weekly Meetings and did not follow a structured set of topics, although topics covered were similar to those of the Enterprise Workshops.

EXHIBIT 2.2
BUSINESS STARTUP SERVICES



demonstration (the UI work search waiver). Finally, participants' earnings from self-employment were disregarded in the calculation of the self-employment allowance amount.

The demonstration design set the duration of the UI work search waiver at 24 weeks. Thus, in Massachusetts, treatment group members could collect self-employment allowances through week 24 of their UI claim. Moreover, since Massachusetts claimants were eligible for up to 30 weeks of UI benefits, treatment group members had to choose between continuing with their self-employment activities full-time or returning to UI for up to six weeks of remaining UI eligibility and meeting the work search requirements.[10]

To provide additional financial support, the Enterprise Project developed a loan program through Shawmut Bank, a large regional bank with branches in each of the demonstration sites. As part of this program, participants' loan applications were given consideration, even if the size of the loan fell below normal minimal levels.

Washington

The business start-up services provided in the Washington demonstration were somewhat different than the services provided in the Massachusetts demonstration both in the topics covered and the timing of the sessions. Within two weeks following random assignment, treatment group members were scheduled to attend a set of four business training modules covering the following topics:

- Business feasibility;
- Marketing;
- Finance and accounting; and,
- Organization and management.

It took approximately 20 hours of classroom time to cover these four topics; the Massachusetts classroom sessions (i.e., the Enterprise Seminar and six Enterprise Workshops) took approximately the same time. The Washington training modules, however, were presented in

[10] During the demonstration period, there were a number of changes in the maximum number of UI benefit weeks available through either or both the federal/state Extended Benefits (EB) program and the Emergency Unemployment Compensation (EUC) program.

four sessions during a one-week period; in contrast, the Massachusetts sessions were presented over a 12-week period.

The training modules introduced claimants to the need for developing a comprehensive business plan. Individualized business plans were then developed by participants with the assistance of their business development specialist. Additional assistance in developing a business plan was offered through the Entrepreneur Club meetings which were scheduled monthly. These meetings provided participants with peer support and advice throughout their demonstration participation.

The financial assistance component of the Washington demonstration included regular UI payments as well as eligibility for a lump-sum payment of an amount equal to the individual's remaining available UI benefits. That is, treatment group members received regular bi-weekly UI payments while engaged in business start-up activities. In addition, they were eligible for a lump-sum self-employment payment when they completed five required milestones:

- Complete the training modules;
- Develop an acceptable business plan;
- Set up a business bank account;
- Satisfy all licensing requirements; and
- Obtain adequate financing.

Following the completion of these milestones, participants were eligible for a lump-sum payment equal to their remaining UI entitlement at the time. Because the remaining entitlement at any point in the claim is the maximum benefits payable less the amount of UI benefits already paid out in the form of bi-weekly payments, the amount of the lump-sum payment depended on the participant's UI entitlement, as well as the time taken to achieve the milestones.

Although the lump-sum payment component of the SEED Demonstration was intended to simulate a cash-out of UI benefits, it was not strictly possible to test a cash-out policy because UI is an entitlement program that could not be denied for demonstration purposes. Operationally, this meant that participants could return to the regular UI program after receiving their lump-sum payment (provided out of separate research funds) and draw the remainder of

their UI entitlement in the form of bi-weekly payments provided they met the normal UI eligibility requirements, including the work search requirement.[11]

A critical element in the Washington demonstration design was the important role played by the business development specialists. These specialists provided ongoing counseling, assisting each participant in his/her pursuit of the five program milestones that were required to receive a lump-sum payment. The business development specialists were also responsible for conducting a "milestone review" to determine if all milestones had been attained and thus whether or not a lump-sum payment would be made. After the business start-up, the business specialists' responsibilities included technical assistance on an as-needed basis and a business status review, conducted approximately two months following receipt of the lump-sum payment.

[11] Because the lump-sum payments were paid out of Federal research funds -- not State UI funds -- they did not affect a participant's UI net balance available.

3

DATA SOURCES

The analysis in this report is based on data from DOL's Participant Tracking System (PTS), UI administrative records, and followup surveys. A detailed description of these data was presented in Benus, et al., 1993. Here, we present a brief description of the data sources that are used in the present analysis and are common to both the Washington and Massachusetts demonstrations.

PARTICIPANT TRACKING SYSTEM

The Participant Tracking System (PTS) is an on-line database system developed by DOL staff to provide ongoing information about project participants and project services. The PTS served as an integral component of each demonstration by performing such functions as targeting project participants, generating letters to participants, randomly assigning individuals to treatment and control groups, referring participants to demonstration services, and maintaining on-line information about receipt of project services. In addition to performing all these functions during the project implementation phase, the PTS also provides data for analyzing program operations.

For the present analysis, the PTS provides data on: (1) individual characteristics; (2) demonstration services; and (3) UI payment information. Data on sample members' characteristics are used to describe claimants targeted for the demonstration. These data are also used to compare the characteristics of the treatment and control groups members. Finally, individual characteristics data are used in the impact analysis as control variables in multivariate regressions.

Data on demonstration services will be used in the process analyses of the Washington and Massachusetts demonstrations. These process analyses are not presented in this report, but will be incorporated into the two final reports. Demonstration services data are, however, used in the present report to analyze and compare the level of services provided in the two demonstrations.

PTS data on sample members' UI benefits history were used to develop UI outcome measures such as total weeks paid, total benefits received, and whether the claimants exhausted their UI benefit entitlement. We also used these data to develop measures of UI benefit spells.

SURVEY DATA

Two followup surveys were conducted by Abt Associates' Survey Research Group using Computer Assisted Telephone Interviewing (CATI). The first of these followup surveys was administered to all SEED and Enterprise Project participants and control group members approximately 1.5 to 2 years after random assignment. The second survey was administered approximately one year later. In this report we analyze only data from the first followup survey. The final reports will analyze data from both followup surveys and evaluate longer-term program impacts.

The followup period[12] was slightly shorter in Massachusetts than in Washington. As seen in the Table 3.1, the median survey followup period was 18.9 months in Massachusetts as compared with 21.3 months in Washington.

The entire Washington sample and part of the Massachusetts sample (those enrolled in 1990) were interviewed for the first time between January and May of 1992. The Massachusetts sample members who enrolled in 1991 (i.e., the second cohort), were interviewed for the first time between January and April of 1993. The first two Massachusetts cohorts are combined into

[12] The survey followup period is defined as the number of months between the date of random assignment and the followup interview.

Table 3.1
Survey Followup Period
Elapsed Time Between Random Assignment and First Followup Interview
(In Months)

	Massachusetts[13] (n=449)	Washington (N=1204)
Minimum	16.5	17.8
Lowest Quartile	17.9	20.3
Median	18.9	21.3
Third Quartile	19.9	22.4
Maximum	24.0	30.6

a single group in the present analysis. The decision to combine these two cohorts is evaluated in Chapter 4, where we compare the characteristics of the two cohorts. We also examine differences in program procedures over the two years.

Contents of the Survey Data

The followup surveys collected detailed pre- and post-program information about the treatment and control groups. The surveys collected information on employment, earnings, periods of unemployment, periods of time spent looking for work, demographic characteristics, and experiences with the programs. Specific categories of variables that were collected in the surveys are:

- Wage and salary employment and earnings in the followup period;
- Self-employment and earnings in the followup period;
- Wage and salary employment and earnings prior to random assignment;
- Self-employment and earnings prior to random assignment;
- Spells of unemployment during the followup period;
- Time spent unemployed and looking for work;

[13] We examined the length of the followup survey periods for each year of the Massachusetts program separately. Our analysis found that the followup periods were quite similar.

- Background characteristics; and
- Participation in project activities, and opinions about project services.

Response Rates and Characteristics of Survey Respondents

Trained interviewers attempted to interview all individuals who were randomly assigned. In the Washington demonstration, a total of 755 treatment group members and 752 control group members were telephoned. Interviews were completed with a total of 604 treatment group members and 600 control group members for an overall response rate of 80 percent in each group.

In the Massachusetts demonstration, 105 treatment group members and 102 controls from the 1990 cohort and 158 treatment group members and 156 controls from the 1991 cohort were called. For the 1990 cohort, 177 interviews were completed for a response rate of 85.5 percent. For the 1991 cohort, 272 interviews were completed, for a response rate of 86.6 percent. The response rate for the combined 1990-1991 Massachusetts sample was 86.2 percent.

To assess whether survey respondents differed systematically from the population of individuals randomly assigned, we compared the demographic characteristics of the two groups. The results of this comparison are presented in Table 3.2. As indicated by these results, the respondent sample is similar to the total sample in both Washington and Massachusetts. No statistically significant differences between these two groups were found.

Table 3.2 also highlights differences in demographic characteristics between the Massachusetts and Washington samples. The two samples are similar in most respects; they differ, however, with respect to education. Massachusetts sample members are more likely to be college graduates and have a slightly higher mean number of years of education than do Washington participants. Massachusetts sample members are also more likely to have previous work experience in professional/technical and managerial occupations. On other characteristics, the two samples appear similar.[14]

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[14] Although not shown in the table, we also compared the characteristics of treatment and control group members in each state. That analysis indicated that treatment and control groups are very similar on all demographic characteristics.

Table 3.2
Characteristics of
Individuals Randomly Assigned and All Survey Respondents

Characteristics[15]	Massachusetts		Washington	
	All Randomly Assigned (N=521)	All Survey Respondents (N=449)	All Randomly Assigned (N=1507)	All Survey Respondents (N=1204)
Gender (%):				
Male	67.2%	68.4%	67.3%	65.0%
Age at Random Assignment				
Mean Age (in years)	40.6	40.9	39.5	39.7
Percent Age < 25	2.3	1.8	4.0	3.3
Percent Age >=45	33.8	34.7	27.9	28.3
Education				
Percent College Graduate	44.0%	45.7%	28.7%	29.8%
Mean Education (in years)	14.5	14.6	13.8	13.9
Prior Work Experience (%):				
Professional/technical/ managerial occupation	44.9%	45.9%	36.7%	38.3%
Clerical occupation	10.6	10.5	13.1	14.0
Services sector	29.9	29.8	27.7	28.2
UI Entitlement ($):				
Mean Weekly Benefit Amount	$247	$251	$197	$199
Mean Maximum Benefit Payable	$7368	$7486	$5427	$5516
Race/Ethnicity				
Caucasian	89.8%	90.6%	91.3%	93.6%
African American	8.3	7.1	3.2	1.9
Hispanic	.8	.9	2.1	1.5
Other	1.2	1.4	3.5	3.0

[15] All values shown in the table are based on non-missing values. Therefore, the sample size for different variables may vary slightly.

4

DEMONSTRATION IMPLEMENTATION

In this chapter, we review the implementation of the Washington and Massachusetts demonstrations. Specifically, we present results on program participation rates, timing of program services, utilization of program services, and participants' opinions about the services. Before presenting these results, we first describe the changes in implementation procedures that occurred in Massachusetts (where the demonstration was implemented in distinct phases) between 1990 and 1991.

The brief process analysis presented in this chapter will provide the reader with an understanding of some of the implementation factors that may affect the impact results presented in subsequent chapters. A complete process analysis of the Washington demonstration was presented in Johnson, et al. (1991); a complete process analysis for the Massachusetts demonstrations will be included in the Massachusetts final report.

A Comparison of the 1990 and 1991 Enterprise Project Implementations

As described in Chapter 2, the Massachusetts Enterprise Project was implemented in three distinct phases. Since, in this analysis, we combine the 1990 and 1991 samples, it is important to review program operations in those two years. It should be emphasized that the overall project design did not change between the two program years. There were, however, some changes that are important to identify and assess since they may influence the analysis results. For example, there was one minor change in the demonstration sites after the 1990 implementation. In 1991, Milford was added and Gloucester was dropped from the demonstration. The primary reason for this change was to increase the flow of claimants into the demonstration (Milford is substantially larger than Gloucester). The remaining sites

(Greenfield, Lowell, New Bedford, Roxbury, Springfield, and Woburn) operated the demonstration both years.

Other significant changes occurred in the delivery of business assistance services to program participants. In both years, business services were provided by business development experts selected through a competitive bidding process. In 1990, business services were provided by the Massachusetts Small Business Development Center (MSBDC) and the Franklin County Community Development Corporation. In 1991, business services were provided by business development specialists under contract to the Massachusetts Department of Employment and Training. This change in service providers was made to improve the responsiveness of business services to the needs of the clients. While substantial efforts were made to maintain consistency in training content between 1990 and 1991, some changes were necessary to meet client needs and to improve service delivery. For example, the length of the Enterprise Seminar (the first self-employment training session) was reduced from eight hours to 4 1/2 hours. Also, in 1991 formal curricula and schedules were developed for the bi-weekly workshops (called Enterprise Workshops in 1991); in 1990 the curricula and schedules were not formalized in all sites. These changes were implemented in an effort to improve the organization and delivery of business services.

Participant Characteristics

To assess the potential differences in the implementation of the Enterprise Project in 1990 and 1991, we begin by comparing the characteristics of participants in the two years. In Table 4.1 we present characteristics of individuals randomly assigned in 1990 and 1991. In general, the 1990 and 1991 groups are quite similar. For example, there is no difference in the gender composition of the two groups and only slight differences in the age and race/ethnicity composition of the groups. Similarly, there are only small differences between the groups in education levels, percent graduating college, and UI entitlement levels. For each of the above characteristics, we conducted a t-test of differences in means and none of the above differences is statistically significant at the .05 level. Thus it appears that the 1990 and 1991 samples are substantially the same on these background characteristics.

Table 4.1
Comparisons of the Characteristics of All Individuals Randomly Assigned in Massachusetts in 1990 and 1991

Characteristics[16]	1990 (N=207)	1991 (N=314)
Gender (%):		
Male	67.2%	67.2%
Age at Random Assignment		
Mean Age (in years)	39.8	41.1
Race/Ethnicity		
Caucasian	88.9%	90.5%
African American	8.7%	8.0%
Hispanic	1.0%	0.6%
Other	1.5%	1.0%
Education		
Percent College Graduate	43.0%	44.6%
Mean Education (in years)	14.3	14.6
UI Entitlement ($):		
Mean Weekly Benefit Amount	$244	$250
Mean Maximum Benefit Payable	$7249	$7448

Participation in Enterprise Project Activities

Information on the participation rates across the two years is shown in Table 4.2. The Information Session attendance rate rose from 3.5 percent in 1990 to 4.1 percent in 1991. The application rate (i.e., the percentage of Information Session attendees who submitted an application) dropped significantly, from 69 percent in 1990 to 59 percent in

[16] All values shown in the table are based on non-missing values. Therefore, the sample size for different variables may vary slightly.

1991. However, the combination of the attendance rate and the application rates yields the same overall application rates in 1990 and 1991 (2.4%). Thus, the overall application rate was the same in both years.

The rate of participation in business assistance services did not change between 1990 and 1991, with more than 92 percent of all treatment group members attending the Enterprise Seminar and approximately 90 percent attending at least one counseling session in both years. There was, however, a significant increase in the percentage of treatment group members who attended at least one bi-weekly workshop (77.1 percent in 1990 versus 89.9 percent in 1991). This latter increase may reflect the more formal organization of the sessions and the standardization of curricula in the second year. In summary, the above comparison suggests that changes in program implementation between 1990 and 1991 did not effect program participation levels.

Table 4.2
Participation In Various Enterprise Project Activities

Activity	1990		1991	
	Number	Percent	Number	Percent
Invited to Information Session	10,552		15,618	
Attended Information Session*	372	3.5%	641	4.1%
Submitted an application*	257	69.1%	381	59.4%
Randomly Assigned*	207	80.5%	314	82.4%
Treatment Group	105	50.7%	158	50.3%
Control Group	102	49.3%	156	49.7%
Number/percent of treatment group attending:				
Enterprise Seminar	97	92.4%	146	92.4%
At least one counseling sessions	94	89.5%	145	91.8%
At least one bi-weekly workshop	81	77.1%	142	89.9%

* The percentages shown are percentages of the activity above.

Timing of Enterprise Project Activities

The interval between key Enterprise Project activities in 1990 and 1991 is presented in Table 4.3. For most activities, the elapsed time between consecutive activities was significantly lower in 1991 than in 1990. For example, the average elapsed time from application receipt to random assignment decreased from 10 days in 1990 to 8 days in 1991. The total number of days between the benefit year begin date and attendance at the Enterprise Seminar was 64 days in 1990 and 58 days in 1991 (significant at the .01 level). This reduction in time between key demonstration activities most likely reflects improved organization in the delivery of program services resulting from experience with program implementation.

Table 4.3
Average Number of Days Between Key Program Activities
1990 and 1991

Activity	1990	1991
	Days	Days
Benefit Year Begin Date to Invitation Date	22	23
Invitation Date to Date of Information Session	12	10
Information Session attendance to application receipt	6	6
Application receipt to Random assignment	10	8
Random assignment to Enterprise Seminar	14	11
Benefit Year Begin Date to Enterprise Seminar	64	58

A COMPARISON OF DEMONSTRATION IMPLEMENTATION IN MASSACHUSETTS AND WASHINGTON

In Table 4.4, we present a comparison of the participant flows through various stages of the demonstrations. In Washington, a total of 42,350 UI claimants were invited to attend a SEED orientation session. In Massachusetts, 26,170 UI claimants were invited to attend an Enterprise

Project orientation session. It is important to note that the Massachusetts total is based on only the 1990 and 1991 intake phases. Including the 1992 wave of intake would make the Massachusetts demonstration similar in size to the Washington demonstration.

Attendance at Orientation

The response rate to the invitations was significantly higher in Washington than in Massachusetts. In Washington, 7.5 percent of those invited to attend an orientation session were interested enough in the possibility of pursuing self-employment that they chose to attend the session. In Massachusetts, only 3.8 percent of those invited to an orientation session, attended. The orientation attendance rate in Washington is thus nearly twice the orientation attendance rate in Massachusetts.

Table 4.4
Participation In Various Project Activities

Activity	Massachusetts		Washington	
	Number	Percent	Number	Percent
Invited to Information Session	26,170		42,350	
Attended Information Session*	1013	3.8%	3,167	7.5%
Submitted an application*	638	63.0% (2.4% of all invited)	1,932	61.0% (4.5% of all invited)
Randomly Assigned* Treatment Group Control Group	521 263 258	81.7% (1.9% of all invited)	1,507 755 752	78.0% (3.5% of all invited)
Number/percent of treatment group attending:				
Enterprise Seminar	243	92.4%	640	84.8%
At least one counseling sessions	239	90.9%	529	70.1%
At least one bi-weekly workshop	223	84.8%	NA	NA

* The percentages shown are percentages of the activity above.

Attendance at Orientation

The response rate to the invitations was significantly higher in Washington than in Massachusetts. In Washington, 7.5 percent of those invited to attend an orientation session were interested enough in the possibility of pursuing self-employment that they chose to attend the session. In Massachusetts, only 3.8 percent of those invited to an orientation session, attended. The orientation attendance rate in Washington is thus nearly twice the orientation attendance rate in Massachusetts.

There are several possible explanations for the difference in attendance rates. First, the contents of the two invitation letters were different and may have influenced the attendance rate. Second, claimants may have been invited to the orientation at different stages of their unemployment spell. Third, the targeted populations in the two demonstrations may have differed on some characteristic that influences interest in self-employment. Finally, there may have been other factors, such as local economic conditions or the availability of other government programs, that affected the attendance rates. We examine each of these factors below.

The content and wording of the invitation letters may have affected the attendance rates. In Exhibits 4.1 and 4.2 we present the invitation letters used in the two demonstrations. In the Washington letter (Exhibit 4.1), the first sentence asks simply "Are you interested in self-employment?" In the Massachusetts letter (Exhibit 4.2), the first sentence asks a somewhat more narrow question "Do you have an idea for your own business?" Thus, in Washington, individuals with a general interest in self-employment but with no specific business idea were initially invited to attend an orientation session. In Massachusetts, on the other hand, the wording of the letter targeted the invitation to only those individuals with a business idea. This may partly explain why relatively fewer individuals in Massachusetts attended the orientation session.

Moreover, the Massachusetts letter mentions that the Enterprise Project is very small and that applicants will be selected by lottery. The Washington letter, on the other hand, makes no mention of random selection or limited enrollment. The Washington letter may thus be viewed as less restrictive and somewhat more encouraging to invitees than the Massachusetts letter.

Exhibit 4.1

Washington
Invitation Letter

Name
Address 1
Address 2
City, State
Zip

SSA Letter
JSC
BYE
Current Date

Are you interested in self-employment? If so, you are invited to attend a one-hour self-employment Awareness Day meeting:

Date _____

Location _____

_____

_____

_____

(Please arrive early, latecomers will not be allowed)

The State of Washington is conducting a special project for people interested in self-employment. The regular unemployment insurance system does not allow claimants to receive benefits and pursue full-time self-employment. But the purpose of the Self-Employment & Enterprise Development (SEED) Project is to find ways to make the Unemployment Insurance system more effective for people who would like to start their own business.

Participants in the SEED project will receive unemployment benefits and training while preparing to start their own business. The project is designed for individuals who already have a business idea and are prepared for a quick start. You must also be fully eligible to receive unemployment benefits to participate.

This is a one-time offer. YOU MAY NOT RESCHEDULE. To learn more about this project and help you decide if you wish to apply, you must personally attend Awareness Day on the date that appears above. Attendance at this meeting will not affect your eligibility for unemployment benefits.

If you have questions about the SEED project, please do not contact your Job Service Center. You may call the SEED Project Unit at 1-800-782-9099 or 1-206-586-8849.

Exhibit 4.2

Massachusetts
Invitation Letter

(Name) (Date)
(Address)

Dear (Name):

Do you have an idea for your own business? Would you like to try to turn your idea into a full-time job?

The Enterprise Project is a pilot program that the Commonwealth of Massachusetts is offering in seven selected communities for people who are receiving unemployment insurance and want to start their own businesses. To find out about the program and to learn a little about self-employment you should attend one of the following Information Session:

- (Date) (Site)
  (Time) (Address)

OR

- (Date) (Site)
  (Time) (Address)

OR

- (Date) (Site)
  (Time) (Address)

At this meeting, a representative from the Department of Employment and Training will explain how the Enterprise Projects ties in with your unemployment compensation. A business counselor will discuss the risks and rewards of self-employment and help you begin to evaluate your business idea.

To qualify for the Enterprise Project, you must have attended an information session and have a clear business idea which will be reviewed for final eligibility. The Project is only open to people who will not be recalled to their previous job. The Project is very small. Applicants will be selected by lottery. I will be happy to answer any questions you may have about the program at the information session.

Sincerely,

(Enterprise Rep. Name)
Enterprise Representative
(Site) Opportunity Job Center

The timing of the invitation letter and the scheduling of the orientation sessions may have also influenced the attendance rates in the demonstrations. As indicated later in this chapter, the time interval between the benefit year begin date and the orientation attendance date was shorter in Washington than in Massachusetts (by approximately two weeks). If some Massachusetts claimants found jobs during the extra two-week interval, they would not have attended the orientation session. However, given the high average duration of unemployment in Massachusetts, in is unlikely that the extra two weeks had a significant impact on the attendance rate.

An examination of the demographic characteristics of the targeted populations in the two demonstrations (not presented here) revealed some differences between the Washington and Massachusetts populations. For example, targeted claimants in Massachusetts were more likely to be high school graduates than targeted claimants in Washington (66 percent in Massachusetts versus 44 percent in Washington) and were more likely to have had prior work experience in professional/technical and managerial occupations (27 percent versus 15 percent). These differences, however, do not help explain the higher attendance rate in Washington since a prior analysis of the Washington data suggested that interest in self-employment was positively related to education level and professional/managerial occupation status.[17] We will examine this issue in greater detail in the final reports.

Finally, economic conditions in Washington were consistently robust during the SEED enrollment period. In Massachusetts, on the other hand, economic conditions shifted dramatically during the enrollment periods. The Massachusetts economy was relatively healthy in early 1990, falling into a deep recession by the end of 1991. Here again, prior evidence suggests that the local unemployment rate is positively related to interest in self-employment. Thus, economic conditions do not help explain the higher attendance rates in Washington. This issue will also be investigated further in the final reports.

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[17] Benus, Jacob and Terry Johnson, "Entry Into Self-Employment," paper presented at the APPAM Research Conference, October, 1991.

Application

After attending the initial orientation session, the next step in the intake process in both demonstrations was filing an application. At the end of the initial session, those interested in applying to the demonstration took an application packet and were required to submit the completed package within seven days. The application rate among information session attenders in Massachusetts was only slightly higher than in Washington (63 percent versus 61 percent). Thus, it appears that although fewer people in Massachusetts had interest in the demonstration at the beginning of the process, those who completed the first step were as likely as their counterparts in Washington to proceed to the next step -- application.

Random Assignment

In both projects, applications were reviewed by demonstration staff to ensure timely submission, completeness and that the business ideas satisfied the guidelines of the demonstration. Demonstration guidelines included such factors as: the business idea must be legal and the participant must have day-to-day control of the business. Those applications deemed acceptable under the guidelines were then randomly assigned.[18] In Massachusetts, 81.7 percent of all applications submitted were randomly assigned; in Washington, 78.0 percent of submitted applications were randomly assigned. It is interesting to note that both demonstrations had similar random assignment rates, despite some differences in the application review process.

Business Assistance Services

Among individuals assigned to the treatment group, Massachusetts participants had relatively higher participation rates than their Washington counterparts. For example, 92 percent of treatment group members in Massachusetts attended the first training session (Enterprise Seminar), while 85 percent of Washington participants attended their first training session. In addition, more than 90 percent of all treatment group members in Massachusetts

[18] In Massachusetts, business ideas were also reviewed by an "expert panel" consisting of a banker, a business start-up expert, a small business business development consultant, and the Enterprise Project director. The expert panel accepted applications that contained a clear, focused business idea in the area where the owner had significant past experience.

attended at least one individual counseling session, whereas the same was true for only 70 percent of Washington participants.

It therefore appears that although the takeup rate in Massachusetts was lower than Washington at the intake stage, the participation rates in demonstration services were somewhat higher. This higher participation rate in Massachusetts program services had the effect of slightly reducing the large difference in takeup rates between the two states.

Timing of Activities

Both demonstrations were intended to be early intervention programs. It was anticipated that by recruiting claimants early in their UI claim, and by providing self-employment training services as early as possible, the programs would serve individuals who most wanted to become self-employed (rather than those who had no other attractive option) and would be able to provide the maximum possible support to individuals during the business startup period.

In the Washington demonstration, early delivery of program services also had an important monetary incentive. That is, demonstration participants were required to complete five project milestones related to starting a business in order to qualify for lump-sum payment equal to their remaining UI benefits. To maximize this amount, it was important to complete the training and develop a business plan as soon as possible.

Table 4.5 shows the average number of days between key intake and service activities in the Washington and Massachusetts demonstrations. As the table indicates, the goal of early intervention may have been met more effectively in Washington than in Massachusetts. Indeed, the average number of days between the benefit year begin date and the date of attendance at the orientation session in Massachusetts was 33 days, nearly twice the 18 days in Washington. The cumulative elapsed time from the benefit year begin date to the first training session was 39 days in Washington and 59 days in Massachusetts. The activity that accounts for most of the difference in the number of days between activities is the initial step -- the number of days between benefit year begin date and attendance at the orientation session.

Table 4.5
Average Number of Days Between Key Program Activities
(All Treatment Group Members)

Activity	Washington (n=755)	Massachusetts (n=263)
Benefit Year Begin Date/Effective Date of Claim to Information Session/Awareness Day	17.7	33.3
Information Session/Awareness Day Session to Random Assignment	11.1	13.9
Random assignment to Enterprise Seminar/First Training Module	10.2	12.3
Benefit Year Begin Date/Effective Date of Claim to Enterprise Seminar/First Training Module	39.0	59.5

One likely explanation for the longer elapsed time (between the benefit year begin date and attendance at the orientation) in Massachusetts relative to Washington is the fact that Massachusetts is a "wage request" state whereas Washington is a "wage reporting" state. That is, in Washington, monetary eligibility can be determined immediately after filing of a new claim. In Massachusetts, on the other hand, monetary eligibility requires verification by the employer, a process which, on average, takes three weeks. This three week delay largely accounts for the difference in elapsed time between the two demonstrations.

Program Experiences

Table 4.6 displays the percentage of treatment group members who participated in various self-employment training activities offered by the demonstration. Overall, a higher percentage of Massachusetts treatment group members than Washington treatment group members attended the first key activity, the Enterprise Seminar or First Training Module (92 percent in Massachusetts versus 85 percent in Washington) . However, 83 percent of Washington treatment group members attended all training modules, while the same was true for only 46 percent of all Massachusetts treatment clients.[19] The higher completion rate in

[19] In Washington, a small number of participants received a waiver from attending the training modules.

Washington in part reflects the shorter training time frame in Washington. That is, in Washington the four training modules were offered on consecutive business days (Thursday, Friday, Monday, and Tuesday), so that the entire training could be completed within a relatively short period of time. In Massachusetts, on the other hand, the six bi-weekly workshops were scheduled over a twelve-week period. It is therefore not surprising that a lower percentage of Massachusetts participants completed all six workshops, since a number of participants had ceased to participate in the demonstration by the end of that period.

As indicated in Table 4.6, Massachusetts participants utilized the counseling available through the demonstration more extensively than Washington participants--over four times as much. Massachusetts participants received an average of 6.5 hours of counseling each, while Washington participants received an average of only 1.5 hours of counseling.

Table 4.6
Business Assistance Services Received
(Percentages based on PTS data)

Business Assistance Services	Massachusetts (N=263)	Washington (N=755)
Business Training Modules		
Attended Enterprise Seminar/Training Module 1	92.0%	84.8%
Attended At Least Six Bi-Weekly Workshops/ Attended (or Waived) All Training Modules	45.5%	83.4
Business Counseling Hours		
No counseling	9.1%	29.9%
Mean Hours of Counseling	6.5	1.5
Number of Entrepreneur Club Meetings Attended		
None	NA	64.1%
Mean Number of Meetings Attended		0.7

Opinions About Business Services

In the followup survey we asked demonstration participants their opinions of the demonstration business assistance services. The responses presented in Table 4.7, indicate that both Massachusetts and Washington participants had positive opinions about the quality of the business services they received. Approximately four out of five respondents rated the training and the counseling services as excellent or good. Massachusetts participants were slightly less favorable about the quality of services than their Washington counterparts.

Table 4.7
Program Experiences of Massachusetts and Washington Participants

	Massachusetts	Washington
Business Training Modules*		
Number who attended at least one business training workshop/Enterprise Seminar or module	208	508
Percentage who rated the business training workshops excellent or good	76.9%	80.1%
Percentage who rated the business training workshop instructors excellent or good	81.7%	84.1%
Individual Counseling Sessions*		
Number who reported attending counseling sessions	187	268
Percentage who rated the sessions excellent or good	76.5%	83.6%
Percentage who rated the business counselors excellent or good	79.7%	85.5%

* The responses presented are for individuals who reported attending the activity on the followup survey and who also had a PTS record indicating attendance at that activity

Receipt of Other Services

In Table 4.8, we present rates of receipt of non-demonstration business training and counseling services for the treatment and control groups combined in each state. A

comparison of responses by treatment and control groups members (not reported in the Table), indicated that both groups utilized non-demonstration services at approximately the same rate. As indicated in Table 4.8, Massachusetts respondents reported having received outside business services more often than their Washington counterparts.

Table 4.8
Receipt of Business Training Services
Other Than Services Offered by the Programs

(Treatment and Control Group Members Combined)

	Massachusetts (N=449)	Washington (N=1204)
Business Training Service	**Percent receiving service**	**Percent receiving service**
Any other business training or counseling	23%	19%
Any business counseling	16%	9%
Business counseling over the telephone	13%	8%
Attendance at business training seminars	17%	13%

5

EMPLOYMENT AND EARNINGS IMPACTS

In previous chapters, we described the designs of the Massachusetts and Washington demonstrations, the data sources available for analysis, and the implementation of the two demonstrations. With this chapter, we begin the evaluation of program impacts using data from the first followup survey.

An analysis of the early impacts of the Washington demonstration has been presented in a previous report (Benus, et al., 1993). The focus of the present report is to compare the early Washington impact estimates with similar estimates derived from the Massachusetts demonstration. Where differences in impacts between the two programs are found, we make an effort to explain the differences.

In the remainder of this chapter, we first discuss impacts on self-employment and then discuss impacts on wage and salary employment. Following these discussions, we combine self-employment and wage and salary outcomes and assess program impacts on total employment and total earnings.

IMPACTS ON SELF-EMPLOYMENT

The Massachusetts and Washington demonstrations were both designed to assist treatment group members pursue self-employment. In this section, we discuss the effects of the two demonstrations on the self-employment experiences of program participants. We examine the impact of the two demonstrations on the likelihood of entering self-employment, the elapsed time between random assignment and the start of self-employment, the likelihood of being self-employed at the time of the followup survey, the likelihood of self-employment termination, the total time spent in self-employment, and the earnings from self-employment since random assignment.

Self-Employment Experiences

Both the Massachusetts and Washington demonstrations provided business training, counseling, and financial assistance for a randomly selected group of UI claimants who were interested in pursuing self-employment (treatment group). As described above, a comparable group of UI claimants was randomly assigned to the control group for this experimental evaluation. Individuals assigned to the control group received regular UI services and benefits, but no demonstration assistance.

In the analysis below, unadjusted program impacts are estimates as simple differences in treatment and control group means. Regression-adjusted program impacts are derived from multivariate regressions using covariates to control for some of the variation in outcomes across the sample. By including a variable that captures treatment status (e.g., T=1 if the claimant is in the treatment group and T=0 if the claimant is in the control group), we can obtain an unbiased estimate of the average impact of the demonstration on the outcome by using ordinary least squares (OLS).[20] We refer to impact estimates obtained from such multivariate regression techniques as the regression-adjusted program impact.[21] A standard t-test can be calculated to determine whether the estimated impact is significantly different from zero. Only estimates that are significantly different from zero at the 10 percent level or better will be treated as evidence of a real effect of the demonstration.

Given the types of financial services and business services provided to treatment group members, one would expect more treatment group members than control group members to enter

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[20] For outcomes for which the error term is not normally distributed, ordinary least squares estimates are inefficient, though still unbiased. These include dichotomous outcomes such as employment status. To obtain more efficient impact estimates for these outcomes, we use logistic regression methods for dichotomous outcomes.

[21] In addition to a dummy variable for treatment status, all of the regression equations reported in this chapter included age, age-squared, unemployment rate in the claimant's county of residence during 1990, and dummies for the following variables: site variables, quarter in which the claimant's benefit year started, male, white, completed college, prior job in professional, technical or managerial occupation, prior job in services sector, whether the claimant indicated s/he intended to return to work to prior employer on the demonstration application, spouse employed, having children under the age of six, having prior work experience related to proposed business, having a business at time of demonstration application, having been self-employed before demonstration application (but not at time of application), being a high wage earner (i.e., in the upper quartile) in the four complete quarters before filing the UI claim, and being a medium wage earner (i.e., in the two middle quartiles) in the four complete quarters before filing the UI claim.

self-employment during the observation period (the period from random assignment to the followup survey). This is indeed true in both demonstrations. Table 5.1 presents the self-

Table 5.1
Self-Employment Experiences Since Random Assignment

(Percent)

	Massachusetts		Washington	
	Treatment (N=229)	Control (N=220)	Treatment (N=604)	Control (N=600)
Self-Employment Spells				
1	43.2	27.7	48.8	25.3
2 or more	4.0	0.9	3.1	1.3
Subtotal - with Self-Employment	47.2	28.6	51.9	26.6
No Self-Employment Spells	52.8	71.4	48.0	73.3
Total	100.0	100.0	100.0	100.0

employment experiences of treatment and control group members in each of the two demonstrations. The results indicate that in both states treatment group members were significantly more likely than control group members to have at least one self-employment experience since random assignment. In Massachusetts, 47 percent of the treatment group had at least one self-employment experience during the observation period, as compared with 29 percent of the control group. In Washington, the impact was even more dramatic, with 52 percent of the treatment group versus 27 percent of the control group having at least one self-employment experience.

To test the impact of the program on the timing of business starts, we compared the treatment and control group members' mean elapsed time to the start of their first self-

employment spell.[22] In Table 5.2 we present the estimated impacts on the mean elapsed time to the start of the first self-employment spell. The results indicates that in Massachusetts

Table 5.2
Impacts on Elapsed Time Between Random Assignment and Start of First Self-Employment

(Standard Errors in Parentheses)

Outcome Measure	Massachusetts			Washington		
	Control Group Mean	Unadjusted Impacts	Regression Adjusted Impacts	Control Group Mean	Unadjusted Impacts	Regression Adjusted Impacts
Mean Elapsed Time to Start of First Self-Employment	16.6	-2.4*** (0.6)	-2.2*** (0.6)	15.8	-5.9*** (1.0)	-6.4*** (1.0)

***Indicates coefficient is significantly different from zero at the .01 level.
**Indicates coefficient is significantly different from zero at the .05 level.
*Indicates coefficient is significantly different from zero at the .10 level.

treatment group members started their first self-employment spell 2.4 months earlier than the control group members. In Washington, treatment group members started their first self-employment spell 5.9 months before the control group. Thus, in both demonstrations treatment group members entered self-employment significantly earlier than control group members.

The more dramatic impact in Washington most likely reflects the financial incentives provided by the Washington lump-sum payment. That is, the faster treatment group members completed their milestones, the greater the amount of the lump-sum payment. The above results indicate that both demonstrations significantly increased the likelihood of participants' entry into self-employment.

[22] For those who did not enter self-employment during the observation period, we set the value of their elapsed time equal to the mean length of the observation period. The mean length of the observation period in Massachusetts was 19 months and in Washington it was 21 months.

Another indicator of program success is the likelihood of being self-employed at some fixed point in time following the receipt of program services. In Table 5.3 we present the proportion of treatment and control group members who were self-employed at the time of the survey. In Massachusetts, among the 229 treatment group members who responded to the followup survey, 36.2% were self-employed at the time of the survey (on average, 19 months after random assignment); among the 220 control group members 24.1% were self-employed at the time of the survey. The results are similar in Washington, where, among the 604 treatment group members, 34.1% were self-employed at the time of survey (on average, 21 months after random assignment); among the 600 control group members, 18.0% were self-employed at the time of the followup survey.

Table 5.3
Self-Employment at Followup Survey

(Percent)

	Massachusetts		Washington	
	Treatment (N=209)	Control (N=220)	Treatment (N=604)	Control (N=600)
Self-Employed at Survey	36.2	24.1	34.1	18.0

These results reinforce our earlier findings on the number of self-employment spells since random assignment. That is, just as we found that treatment group members were significantly more likely to be self-employed since random assignment, we now find that treatment group members are also significantly more likely to continue to be self-employed at the time of the followup survey in both demonstrations.

Yet another indicator of program success may be the likelihood of remaining self-employed (among those who had a self-employment spell). That is, if treatment group members are more likely to remain self-employed than control group members, it could be argued that the demonstration services enhanced treatment group members' business skills. To examine this,

we present in Table 5.4 the likelihood of self-employment termination, among those who entered self-employment. The results presented in Table 5.4 indicate that neither the Massachusetts nor the Washington demonstrations had a significant impact on the likelihood of ending a self-employment spell during the observation period. In both demonstrations, the treatment group and the control group had similar termination rates. Thus, while both demonstrations increased

Table 5.4
Impacts on Likelihood of Self-Employment Termination

(Standard Errors in Parentheses)

Outcome Measure	Massachusetts			Washington		
	Control Group Mean	Unadjusted Impacts	Regression Adjusted Impacts	Control Group Mean	Unadjusted Impacts	Regression Adjusted Impacts
Likelihood of terminating self-employment among those who started self-employment	15.9	7.3 (6.4)	7.7 (6.8)	34.4	3.1 (4.7)	4.9 (4.8)
Likelihood of terminating self-employment within 100 days among those who started self-employment	1.7	,3.1 (3.0)	4.5 (3.2)	3.8	.5 (2.0)	.4 (2.0)

***Indicates coefficient is significantly different from zero at the .01 level.
**Indicates coefficient is significantly different from zero at the .05 level.
*Indicates coefficient is significantly different from zero at the .10 level.

the likelihood of entry into self-employment, neither had an impact on the likelihood that the business would fail.

Another dimension of the self-employment experience is the time spent in self-employment. The first row of Table 5.5 compares the total time spent in self-employment by the treatment and control groups. In Massachusetts, control group members spent an average of 2.3 months in self-employment. For the treatment group in Massachusetts, the average time

Table 5.5
Impacts on Total Time Self-Employed, Total Earnings and Average Earnings from Self-Employment

(Standard Errors in Parentheses)

Outcome Measure	Massachusetts			Washington		
	Control Group Mean	Unadjusted Impacts	Regression Adjusted Impacts	Control Group Mean	Unadjusted Impacts	Regression Adjusted Impacts
Total Time in Self-Employment (months)	2.3	1.6*** (0.6)	1.5** (0.6)	1.9	3.9*** (.4)	4.0*** (.4)
Total Earnings from Self-Employment	2,348	2,436 (1,946)	1,922 (1,995)	1,278	3,130** (1259)	2,969** (1275)
Average Monthly Earnings from Self-Employment	204.4	211.8 (188.3)	155.6 (193.1)	101.0	150.2** (150.2)	142.2** (65.5)

***Indicates coefficient is significantly different from zero at the .01 level.
**Indicates coefficient is significantly different from zero at the .05 level.
*Indicates coefficient is significantly different from zero at the .10 level.

spent in self-employment was 3.9 months. In Washington, on the other hand, the average time spent in self-employment for the control group members was 1.9 months and 5.8 months for treatment group members. These results indicate that in both Massachusetts and Washington demonstrations, the treatment group spent significantly more time in self-employment than the control group. In Massachusetts, the impact was an increase of approximately 1.5 months in the time spent self-employed; in Washington, the impact was approximately 4.0 months.

Self-Employment Earnings

Measuring self-employment earnings is extremely difficult for a number of reasons. First, many of the new entrants into self-employment do not receive regular payments from their business. As a result, in both demonstrations zero earnings may have been reported on the survey, when, in fact, there may have been positive but irregular earnings. In addition, some individuals underreport their self-employment earnings to the authorities and are, therefore, likely to underreport their earnings in the survey (even with the promise of confidentiality). For these reasons, the survey data is likely to underreport self-employment earnings. There is no reason, however, to believe that the underreporting differs by treatment/control group status.

The second and third rows of Table 5.5 present the estimated program impacts on total earnings and average monthly earnings from self-employment. In Massachusetts, we find that the demonstration did not have a significant effect on either total self-employment earnings or average monthly self-employment earnings. In Washington, on the other hand, we find that treatment group members earned approximately $3,000 more than control group members in total self-employment earnings and approximately $150 more in average monthly self-employment earnings.

In Massachusetts, therefore, the Enterprise Project did not have a significant effect on self-employment earnings, while the Washington SEED Project did have a significant impact on self-employment earnings. This result may seem somewhat puzzling, since on every other dimension examined above, the two demonstrations yielded qualitatively similar results. However, the impact estimates do not differ significantly between the two states; in fact, the point estimates are remarkably similar. The lack of significant impacts in Massachusetts may simply reflect the relatively small sample for the first two years of project enrollment. The sample size will dramatically increase when we incorporate the third-year project enrollment. This larger sample will be analyzed for the final report.

IMPACTS ON WAGE AND SALARY EMPLOYMENT

Before presenting our analysis of the impact of the demonstrations on wage and salary outcomes, it is useful to consider why the demonstrations might be expected to influence these

outcomes. One might argue that there should be no impact on wage and salary outcomes since both demonstrations directed their efforts toward enhancing participants' self-employment outcomes and not their wage and salary outcomes.

Nonetheless, wage and salary outcomes could be affected for a number of reasons. For example, suppose that the demonstrations directed the more capable treatment group members to self-employment; less capable treatment group members were, therefore, more likely to remain unemployed or to become employed in wage and salary jobs. In this situation, comparing wage and salary earnings of treatment and control group members would yield a negative program impact. That is, treatment group members' wage and salary earnings would be lower than the wage and salary earnings of their control group counterparts.

Similarly, if the demonstrations delayed entry into wage and salary employment for some treatment group members, their wage and salary earnings might be lower than they otherwise might have been. For example, if some treatment group members participated in the self-employment training for several weeks before recognizing that self-employment was not for them, they are likely to have postponed their search for wage and salary employment during this interval. Since control group members were not distracted from their search for wage and salary employment by an offer of self-employment training and financial assistance, they did not delay their search for wage and salary employment. For this reason also, comparing wage and salary earnings of treatment and control group members would yield a negative program impact.

Conversely, if the demonstration services (especially, the counseling) provided treatment group members with increased awareness of their marketable skills and enhanced their self-confidence and employability, the demonstrations might have a positive affect wage and salary earnings. Thus, even though the program goals were to enhance self-employment outcomes, there are a number of reasons to expect some effect on wage and salary outcomes as well.

In the following section, we discuss the number of wage and salary jobs held by treatment and control group members. We then discuss the effects of the demonstrations on the likelihood of having a wage and salary job during the observation period, the likelihood of having a wage and salary job at the time of survey, the mean elapsed time to the beginning of the first wage and salary spell, time spent in wage and salary employment since random assignment, and earnings from wage and salary jobs since random assignment.

Wage and Salary Employment Experience

In Table 5.6, we present the number of spells of wage and salary employment held by sample members during the observation period. In Massachusetts, treatment group members were slightly more likely than control group members to have at least one wage and salary spell after enrollment in the demonstration (63% versus 60%), but the difference is not statistically significant. In Washington, on the other hand, treatment group members were less likely than

Table 5.6
Wage and Salary Experiences Since Random Assignment

(Percent)

	Massachusetts		Washington	
	Treatment (N=229)	Control (N=220)	Treatment (N=604)	Control (N=600)
Number of Job Spells				
1	45.4	43.2	47.4	48.7
2 or more spells	18.0	16.9	22.6	26.6
Subtotal - with Job Spells	63.3	60.0	70.0	75.3
No Job Spells	36.7	40.0	30.0	24.7
Total	100.0	100.0	100.0	100.0

control group members to have at least one wage and salary job (70% versus 75%); here, the difference in proportions is statistically significant. These results suggest that the Massachusetts demonstration did not affect the wage and salary employment prospects of treatment group members; the Washington demonstration, on the other hand, reduced the likelihood of wage and salary employment of treatment group members.

Comparing the elapsed time (in months) to the beginning of the first wage and salary job after random assignment yields some interesting results. The first row of Table 5.7 indicates that the Washington demonstration delayed the start of the first wage and salary job spell by

approximately one month while the Massachusetts demonstration had no significant effect on the timing of a first wage and salary job after random assignment.

The second row of Table 5.7 presents the impact estimates on the likelihood of wage and salary employment at the time of the followup survey. In Massachusetts, the demonstration

Table 5.7
Impacts on Wage and Salary Outcome Measures

(Standard Errors in Parentheses)

Outcome Measure	Massachusetts			Washington		
	Control Group Mean	Unadjusted Impacts	Regression Adjusted Impacts	Control Group Mean	Unadjusted Impacts	Regression Adjusted Impacts
Elapsed time from random assignment to beginning of first wage and salary spell	13.1	-0.9 (0.7)	-1.3 (0.7)	9.6	0.9* (0.5)	1.1** (0.5)
Likelihood of wage and salary employment at followup survey	45.0	6.5 (4.7)	7.9* (4.7)	54.7	-4.0 (2.9)	-4.8 (2.9)
Number of months in wage and salary employment	5.0	0.9 (0.6)	1.3** (0.6)	8.5	-1.1** (.5)	-1.0** (.5)
Total wage and salary earnings during observation period	11,157	4,496** (2131)	5,364** (2160)	17,221	-2,209 (1470)	-2,518* (1441)
Average monthly wage and salary earnings during the observation period	1,137	257 (162)	314* (164)	1,321	-109 (94.4)	-132 (92)

***Indicates coefficient is significantly different from zero at the .01 level.
**Indicates coefficient is significantly different from zero at the .05 level.
*Indicates coefficient is significantly different from zero at the .10 level

increased the likelihood of wage and salary employment at the followup survey; in Washington, there was no impact on wage and salary employment at the time of the followup survey.

In the third row of Table 5.7, we present impact estimates on the time spent in wage and salary employment since random assignment in the two demonstrations. In Massachusetts, treatment group members spent approximately one month more in wage and salary employment than controls; while in Washington, treatment group members spend approximately one month less.

The impacts on total wage and salary earnings during the observation period and the average monthly wage and salary earnings during the observation period are presented in the last two rows of Table 5.7. In Massachusetts, treatment group members earned significantly more than their control group counterparts in total wage and salary earnings as well as in average monthly wage and salary earnings since random assignment. In Washington, on the other hand, treatment group members earned significantly less than controls in total wage and salary earnings during the observation period, but there was no impact on average monthly wage and salary earnings during the observation period.

IMPACTS ON TOTAL EMPLOYMENT AND EARNINGS

In the previous sections, we have discussed the impacts of the Massachusetts and Washington demonstrations on a number of self-employment outcomes as well as on a number of wage and salary outcomes. In this section we combine the self-employment and wage and salary outcomes and present impact estimates for the combined outcomes. We present the following impact estimates for both demonstrations: the likelihood of either wage and salary or self-employment during the observation period, the likelihood of either wage and salary or self-employment at the time of the followup survey, total time employed during the observation period, total earnings during the observation period, and average monthly earnings during the observation period.

The results for these outcomes are presented in Table 5.8. The first row presents the estimated impacts on the likelihood of having had employment -- either wage and salary or self-employment -- during the observation period. The results indicate a positive and significant

Table 5.8
Impacts on Wage and Salary and Self-Employment Outcome Measures

(Standard Errors in Parentheses)

Outcome Measure	Massachusetts			Washington		
	Control Group Mean	Unadjusted Impacts	Regression Adjusted Impacts	Control Group Mean	Unadjusted Impacts	Regression Adjusted Impacts
Likelihood of either wage and salary or self-employment during observation period	77.3	13.6*** (3.4)	13.7*** (3.4)	86.5	5.1***	4.8***
Likelihood of either wage and salary or self-employment at time of followup survey	63.6	16.3*** (4.2)	16.1*** (4.2)	68.3	5.3**	4.6*
Total time employed during observation period (in months)	7.1	3.0*** (0.7)	3.2*** (0.7)	10.5	2.1*** (.5)	2.3*** (.5)
Total earnings during observation period	13,582	7,606*** (2,875)	7,637*** (2946)	17,497	1,974 (2,084)	1,671 (2,036)
Average monthly earnings	1,255	540** (244)	528** (250)	1,278	-13 (112)	-30 (109)

***Indicates coefficient is significantly different from zero at the .01 level.
**Indicates coefficient is significantly different from zero at the .05 level.
*Indicates coefficient is significantly different from zero at the .10 level.

impact in both demonstrations. In Massachusetts, the impact was an increased likelihood of employment of approximately 14 percentage points; in Washington, the impact was lower (approximately 5 percentage points) but also significant.

The impacts on the likelihood of having a wage and salary job and/or being self-employed at the time of the followup survey are presented in the second row of Table 5.8.

These impacts are similar to the above results on either type of employment during the observation period. Specifically, the impact estimates in both demonstrations are positive and significant. The impact is substantially higher in Massachusetts than in Washington (approximately 16 percentage points versus 5 percentage points).

Impacts on total time employed are presented in row three of Table 5.8. In both demonstrations the impacts are positive and significant. In Massachusetts, the impact is an increase of approximately three months, while the impact in Washington is an increase of approximately two months. Thus, both demonstrations significantly increased the total time employed during the observation period.

The earnings impact estimates are presented in the last two rows of Table 5.8. Here, the impacts are dramatically different for the two demonstrations. In Massachusetts, the impacts are positive and significant for both total earnings and monthly earnings during the observation period. Indeed, the results indicate that the Enterprise Project increased treatment group members' earnings by approximately $7,600, an increase of over 50% of the control group mean earnings levels. The increase in average monthly earnings was also substantial, representing an increase of over 40% of the control group mean. In contrast, SEED did not have a significant impact on total earnings or on average monthly earnings.

These earnings impact estimates for Massachusetts are dramatic and extremely interesting. The positive total earnings impacts in Massachusetts are mainly driven by the large and positive impacts of the Enterprise Project on wage and salary earnings, rather than its impact on self-employment earnings. In contrast, SEED did not have a significant impact on total earnings during the observation period. Clearly, these contrasting results require additional investigation.

A number of explanations have been proposed to explain the discrepancy between the earnings impacts of the two demonstrations. For example, it has been suggested that the longer training period or the higher level of counseling in Massachusetts relative to Washington may partly be responsible for the different impacts. At this time, however, we will not explore the various explanations that have been proposed. Rather, we will continue our investigations and present a complete assessment of these results in the final project report.

6

IMPACTS ON JOB CREATION AND UI OUTCOMES

In Chapter 5, we estimated the impacts of the Enterprise Project and SEED on the employment and self-employment experiences of program participants. We found, for example, that, in both demonstrations, treatment group members were more likely than control group members to be self-employed; we also found that they were employed for a larger fraction of the observation period than their control group counterparts. These findings represent the demonstrations' direct impacts on the employment experiences of participants.

The demonstrations may also have indirect impacts on employment. That is, by increasing the number of businesses, the demonstration may also create new jobs for nonparticipants. In the analysis below we consider these new jobs as additional impacts of the demonstrations. It is important to note that this impact analysis may overstate the true impact on employment since attributing all these jobs to the demonstration implicitly assumes that these "new jobs" did not displace other jobs.

The demonstrations may also have impacts on the UI outcomes of program participants. For example, if the demonstrations lead to an increase in the employment rate or the employment duration of treatment group members (relative to control group members), then UI outcomes such as total UI benefits are likely to be reduced. If, on the other hand, the demonstrations lead to a decrease in the employment rate or duration of treatment group members, then UI benefits may increase.

In the sections that follow we first analyze the demonstrations' indirect impacts on job creation by comparing the employment level in treatment group businesses with the employment level in control group businesses. Following this analysis of job creation impacts, we evaluate

the demonstrations' impacts on selected UI outcomes, including length of first UI spell, amount of UI benefits received, and likelihood of benefit exhaustion.

IMPACTS ON JOB CREATION

In addition to providing employment for the business owner, small businesses often generate wage and salary employment for others. In this section we analyze the demonstrations' impacts on the wage and salary employment of nonparticipants. Specifically, we measure the total employment in businesses operated by treatment group members (excluding the owner-operator) and compare this total with total employment in businesses operated by control group members. The difference between the total employment in treatment group businesses and total employment in control group businesses represents an estimate of the demonstrations' impacts on the employment of nonparticipants.

Frequently, when small business owners need employees they hire family members. Since family members are sometimes compensated differently than regular (nonfamily) employees, we analyze impacts on the employment of family members separately from the employment of other employees, as well as the impact on total employment of nonparticipants.

Employment of Family Members

Small businesses often generate employment opportunities for the owner's family. Occasionally, these employment opportunities are not economically significant -- as when a young child is employed after school. At other times, the contribution of family members is critical to the viability of a new business. This is especially true in the early stages of business development when the business may not have sufficient revenue to pay a regular salary.

In Table 6.1, we present the number of businesses that were operating at the time of the followup survey as well as the number of businesses that employed family members. In Massachusetts, among the 91 businesses operated by treatment group members at the time of the followup survey, 23 businesses (25%) had a family member employed in the business; among the 63 control group businesses, 14 businesses (22%) employed a family member. Similar proportions were found in Washington. Among the 223 businesses operated by treatment group

members at the time of the followup survey, 49 businesses (22%) had a family member employed in the business; among the 128 control group businesses, 27 businesses (21%) employed a family member. Thus, it appears that in both states, one-fifth to one-quarter of businesses operating at the time of the survey employed a family member.

To assess program impacts on employment of family members, however, we must examine family member employment over the entire treatment and control groups, not just those who operated a business. In row 3 of Table 6.1, we present the proportion of treatment group members and controls who employed a family member in their business. The results indicate that, in both demonstrations, treatment group members were substantially more likely to employ family members than controls. This result, however, is not due to a greater propensity of treatment group members to employ family members, but rather, due to the higher propensity of treatment group members to operate a business.

Table 6.1
Employment of Family Members in Owned Businesses

	Massachusetts		Washington	
	Treatment (N=229)	**Control (N=220)**	**Treatment (N=604)**	**Control (N=600)**
Number of businesses operating at followup survey	91	63	223	128
Percent of operating businesses with family member employed	25%	22%	22%	21%
Percent of sample with family member employed	10%	6%	8%	5%

Employment of Nonfamily Members

In addition to providing employment for family members, small businesses also generate employment for others. In Table 6.2, we present the number of businesses that were operating at the time of the followup survey and the number of businesses that employed nonfamily

members. In Massachusetts, of the 91 businesses operated by treatment group members at the time of the survey, 13 (14%) had at least one nonfamily member employed in the business. Among the 63 businesses operated by control group members, 15 (24%) employed at least one nonfamily member. In Washington, the proportions were similar: 14% of treatment group businesses and 20% of control group businesses employed nonfamily members. Thus in both demonstrations, a smaller proportion of treatment group businesses employed nonfamily members than control group businesses.

To assess the demonstration impact on nonfamily employment, we present in row 3 of Table 6.2, the proportions of the entire treatment and control groups who employed nonfamily members. These results indicate little difference between treatment and control group proportions in both states.

Table 6.2
Employment of Nonfamily Members in Owned Businesses

	Massachusetts		Washington	
	Treatment (N=229)	**Control (N=220)**	**Treatment (N=604)**	**Control (N=600)**
Number of businesses operating at followup survey	91	63	223	128
Percent of operating businesses with nonfamily member employed	14%	24%	14%	20%
Percent of sample with nonfamily member employed	6%	7%	5%	4%

Total Employment

Combining family employees and nonfamily employees for each business, we obtain the total number of employees in each business. We measure the effect of the demonstrations on nonparticipant employment as the difference between the total number of employees in treatment

group businesses and the total number of employees in control group businesses.[23] We found no statistically significant impact on this measure of employment in either demonstration. Thus, neither the Massachusetts or the Washington demonstrations significantly affected the employment of nonparticipants.

IMPACTS ON UI OUTCOME MEASURES

Using data from the UI history files, we developed three main measures of UI benefit receipt: (i) number of weeks of the first spell of UI receipt; (ii) total amount of UI benefits received during the first benefit year; and (iii) the exhaustion rate.

As shown in the first row of Table 6.3, on average controls experienced a first spell of UI benefits of 26.4 weeks in Massachusetts, and 17.5 weeks in Washington. The impact of the Massachusetts demonstration was to reduce the length of the first UI spell by approximately two weeks. The impact of the Washington demonstration was a reduction of approximately six weeks. Thus, while both demonstrations significantly reduced the length of the first UI spell, the impact in Washington was greater.

The second row of Table 6.3 presents the program impacts on UI benefits received during the first benefit year. In Massachusetts, control group members received an average of $6,845 during the first benefit year; in Washington, control group members received an average of $3,777 during the same period.[24] Both demonstrations had significant negative impacts on UI benefit receipt during the initial benefit year. Treatment group members in Massachusetts collected approximately $700 less per person in UI benefits than control group members.

In Washington, we present two different impact estimates. In row two of Table 6.3, we present the impact estimate of SEED on total UI benefits excluding the lump-sum payment.[25]

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[23] Total number of employees includes all family and nonfamily wage and salary employees excluding the business owner(s).

[24] We also examined impacts on UI benefits during the first unemployment spell (not reported in table). The results of this analysis are qualitatively similar to the results presented above. By examining program impact on UI benefits during the first unemployment spell, we eliminate any confounding effect of Extended Benefits in Massachusetts. Such benefits were available during the latter part of the intake period.

[25] Since the lump-sum payments were made with federal research funds -- and not from the UI Trust Fund -- this estimate may be of some interest.

This estimate suggests that SEED significantly reduced the UI benefits received by treatment group members relative to controls (by over $1400). However, taking into account both UI benefit payments plus lump-sum payments yields a very different impact estimate.[26] As seen in the third row of Table 6.3, treatment group members on average received over $1000 more than control group members -- i.e., including both UI benefits and lump-sum payments yields a significant positive impact estimate. Thus, whereas the Massachusetts impact estimate indicates a reduction in total payments to program participants, the Washington impact estimate indicates an increase in total payments to program participants.

Table 6.3
Impacts on UI Outcome Measures

(Standard Errors in Parenthesis)

	Massachusetts			Washington		
Outcome Measure	**Control Group Mean**	**Unadjusted Impacts**	**Regression Adjusted Impacts**	**Control Group Mean**	**Unadjusted Impacts**	**Regression Adjusted Impacts**
Length of first spell of UI (Weeks)	26.4	-1.9*** (.64)	-2.1*** (0.65)	17.5	-6.1*** (0.5)	-6.1*** (0.5)
UI benefits received during first benefit year ($)	6,845	-706.5*** (211.3)	-718.3*** (204.1)	3,777	-1440.9*** (108.3)	-1430.8*** (100.0)
Total UI benefits plus lump-sum payments ($)	--	--	--	3,777	1,081*** (121.7)	1,111.9*** (101.4)

***Indicates coefficient is significantly different from zero at the .01 level.
**Indicates coefficient is significantly different from zero at the .05 level.
*Indicates coefficient is significantly different from zero at the .10 level.

[26] Approximately 60% of the Washington treatment group received a lump-sum payment. The average lump-sum payment received was $4,225.

7

SUMMARY AND CONCLUSIONS

The Washington State Self-Employment and Enterprise Development (SEED) Demonstration and the Massachusetts Enterprise Project are the first two federally-sponsored self-employment demonstration programs designed to assist unemployed workers in the United States. This report presents a comparison of the preliminary findings from these two demonstration programs. A more complete assessment of each demonstration as well as longer-term program impacts will be presented in two final reports -- one for each demonstration. These final reports are scheduled to be completed in 1994.

This report provides policymakers with the first analysis of impacts from two alternative self-employment program designs. We summarize the findings of the present report in the following three sections: (1) demonstration implementation results, (2) impacts on employment and earnings, and (3) impacts on other outcomes. Following those sections, we present some concluding comments.

DEMONSTRATION IMPLEMENTATION RESULTS

The SEED Demonstration was implemented in seven sites, representing both rural and urban areas of Washington State, from September 1989 through March 1991. During the demonstration period, the Washington economy was strong and relatively insulated from the recession that affected other states. A total of 755 applicants were randomly assigned to the treatment group and 752 were assigned to the control group.

The Enterprise Project was implemented in seven sites throughout Massachusetts in three distinct phases (1990, 1991, and 1992). The present analysis covers only the first two phases during which a total of 263 applicants were randomly assigned to the treatment group and 258

were assigned to the control group. Unlike the Washington economy, the Massachusetts economy was in a recession during the demonstration implementation period.

An implementation and process analysis of the Washington demonstration was completed in August 1991. For the Massachusetts demonstration, an implementation and process analysis will be included in the final Massachusetts report. The main findings from our analysis of program implementation are summarized below.

- In Washington, 7.5% of the 42,350 targeted new UI claimants invited to a meeting about the SEED Demonstration attended that meeting. In Massachusetts, 3.8% of the 26,170 invitees attended a meeting about the Enterprise Project.

- In both demonstrations, the recruitment and intake procedures were implemented as designed, meeting the program objective of early intervention. In Washington, attendance at the information session occurred on average 18 days after the benefit year begin date; in Massachusetts this interval was on average 33 days.

- In Washington, the 1,507 claimants who were randomly assigned represent 3.6 percent of the targeted UI claimants. In Massachusetts, the 521 claimants who were randomly assigned represent 2.0 percent of the targeted UI claimants.

- In Washington, treatment group members began training services, on average, within 6 weeks of their effective date of claim. In Massachusetts, training services began within 9 weeks.

- In both states, a high proportion of treatment group members participated in program services such as business training and counseling.

- Program design differences led to greater utilization of counseling services in Massachusetts than in Washington. The mean hours of counseling in Massachusetts was 6.5 hours, while the mean hours in Washington was 1.5 hours.

- In Washington, approximately 60 percent of the treatment group received a lump-sum payments (equal to their remaining UI benefits) after achieving five program milestones. The average lump-sum payment was $4,225. There was no lump-sum payment in Massachusetts; instead, individuals in Massachusetts received biweekly self-employment payments equal to their regular UI benefits.

IMPACTS ON EMPLOYMENT AND EARNINGS

The demonstrations were designed to assist new UI claimants who expressed an interest in self-employment to pursue their goal of becoming self-employed. Our analysis, therefore, measures the impacts of the demonstrations on a group of UI claimants who expressed an interest in pursuing self-employment. All of the reported impacts below are statistically significant, indicating that the impacts can confidently be attributed to the program. We present the results in three sections: (1) self-employment impacts, (2) wage and salary impacts, and (3) combined self-employment and wage and salary impacts.

Self-Employment Impacts

- In both the Massachusetts and Washington demonstrations, treatment group members were more likely than controls to be self-employed at some point during the observation period.
- In both the Massachusetts and Washington demonstrations, treatment group members entered self-employment earlier than control group members.
- Treatment group members were nearly twice as likely as controls to be self-employed at the time of the followup survey in both demonstrations.
- Neither the Massachusetts nor the Washington demonstration had an impact on the likelihood of ending a self-employment spell during the observation period.
- In Massachusetts, there was no statistically significant effect on earnings from self-employment. In Washington, treatment group members earned significantly more than controls from self-employment.
- In both Massachusetts and Washington, treatment group members spent more time in self-employment than controls.

Wage and Salary Impacts

- In Massachusetts, the demonstration did not reduce the likelihood of wage and salary employment during the followup period. In Washington, on the other hand, the demonstration reduced the likelihood of wage and salary employment.

- In Massachusetts, the demonstration increased the treatment groups' likelihood of wage and salary employment at the time of the followup survey; in Washington, the demonstration did not affect wage and salary employment at followup.

- The Massachusetts demonstration did not affect the mean elapsed time to the start of the first wage and salary job. The Washington demonstration, on the other hand, delayed the start of the first wage and salary job.

- In Massachusetts, the demonstration increased the duration in wage and salary employment; in Washington, the demonstration reduced the duration in wage and salary employment.

- The Massachusetts demonstration increased total and average monthly wage and salary earnings; the Washington demonstration, on the other hand, reduced total wage and salary earnings.

Combined Self-Employment and Wage and Salary Impacts

- Both demonstrations increased the likelihood of employment (in either wage and salary or self-employment) during the observation period.

- Both demonstrations increased the total time employed during the observation period.

- The Washington demonstration had no impact on either total earnings or on average monthly earnings during the observation period. The Massachusetts demonstration, on the other hand, had substantial positive impacts on these earnings.

IMPACTS ON JOB CREATION AND UI OUTCOMES

We analyzed the demonstrations' indirect impacts on job creation by comparing the employment level in treatment group businesses with the employment level in control group businesses. We also analyzed the impacts of the demonstrations on selected UI outcomes. The main findings from these analyses were:

- Neither the Massachusetts nor the Washington demonstration had any statistically significant impact on the employment of nonparticipants (family and nonfamily employees, excluding the business owner(s)).

- Both demonstrations significantly reduced the length of the first unemployment spell.

- Excluding the lump-sum payment in Washington, treatment group members drew less UI benefits than control group members during the first benefit year.

- Including the lump-sum payment, however, Washington treatment group members received higher total payments than controls during the benefit year. (The Massachusetts demonstration did not have a lump-sum payment.)

CONCLUSIONS

The results of this study indicate that both demonstrations increased the likelihood of self-employment and both accelerated the timing of entry into self-employment. The study also indicates that the Massachusetts demonstration had positive impacts on wage and salary employment outcomes while the Washington demonstration had negative impacts. Nonetheless, when we combine self-employment and wage and salary employment outcomes, we find that both demonstrations had positive impacts on these combined outcomes. For example, both demonstrations increased the likelihood of employment and both increased the duration of employment.

The earnings impacts, however, are not consistent across the two demonstrations. In Washington, we observe positive self-employment earnings impacts and negative wage and salary earnings impacts. When we combine earnings from self-employment and wage and salary employment, we find no demonstration impacts on total earnings in Washington.

In Massachusetts, on the other hand, we observe no self-employment earnings impacts, but positive wage and salary earnings impacts. Combining earnings from self-employment and wage and salary employment, we find a positive impact on total earnings. Thus, while the

Washington demonstration has no impact on total earnings, the Massachusetts demonstration has a significant positive impact.

Given these results, we believe that self-employment programs like Washington State's SEED and Massachusetts' Enterprise Project represent viable policy tools for promoting the rapid reemployment of UI claimants. While the impacts of such self-employment programs on earnings remain ambiguous, their impact on employment outcomes appear robust.

II. North American Free Trade Agreement (NAFTA) Implementation Act (P.L. 103-182) Self-Employment Assistance (SEA) Programs

103D CONGRESS
1ST SESSION

H. R. 3450

To implement the North American Free Trade Agreement.

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 4, 1993

Mr. ROSTENKOWSKI (as designee of the Majority Leader) (for himself and Mr. ARCHER) (as designee of the Minority Leader) (by request) introduced the following bill; which was referred jointly to the following committees for a period ending not later than November 15, 1993: Ways and Means, Agriculture, Banking, Finance and Urban Affairs, Energy and Commerce, Foreign Affairs, Government Operations, the Judiciary, and Public Works and Transportation

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A BILL

To implement the North American Free Trade Agreement.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "North American Free Trade Agreement Implementation Act".

(b) TABLE OF CONTENTS.—

Sec. 1. Short title and table of contents.
Sec. 2. Definitions.

into force with respect to the United States, but shall not apply—

(1) to any final determination described in paragraph (1)(B), or (2)(B)(i), (ii), or (iii), of section 516A(a) of the Tariff Act of 1930 notice of which is published in the Federal Register before such date, or to a determination described in paragraph (2)(B)(vi) of section 516A(a) of such Act notice of which is received by the Government of Canada or Mexico before such date; or

(2) to any binational panel review under the United States-Canada Free-Trade Agreement, or any extraordinary challenge arising out of any such review, that was commenced before such date.

TITLE V—NAFTA TRANSITIONAL ADJUSTMENT ASSISTANCE AND OTHER PROVISIONS

Subtitle A—NAFTA Transitional Adjustment Assistance Program

SEC. 501. SHORT TITLE.

This subtitle may be cited as the "NAFTA Worker Security Act".

SEC. 507. TREATMENT OF SELF-EMPLOYMENT ASSISTANCE PROGRAMS.

(a) GENERAL RULE.—Section 3306 of the Internal Revenue Code of 1986 is amended by adding at the end the following new subsection:

"(t) SELF-EMPLOYMENT ASSISTANCE PROGRAM.—For the purposes of this chapter, the term 'self-employment assistance program' means a program under which—

"(1) individuals who meet the requirements described in paragraph (3) are eligible to receive an allowance in lieu of regular unemployment compensation under the State law for the purpose of assisting such individuals in establishing a business and becoming self-employed;

"(2) the allowance payable to individuals pursuant to paragraph (1) is payable in the same amount, at the same interval, on the same terms, and subject to the same conditions, as regular unemployment compensation under the State law, except that—

"(A) State requirements relating to availability for work, active search for work, and refusal to accept work are not applicable to such individuals;

"(B) State requirements relating to disqualifying income are not applicable to income

earned from self-employment by such individuals; and

"(C) such individuals are considered to be unemployed for the purposes of Federal and State laws applicable to unemployment compensation,

as long as such individuals meet the requirements applicable under this subsection;

"(3) individuals may receive the allowance described in paragraph (1) if such individuals—

"(A) are eligible to receive regular unemployment compensation under the State law, or would be eligible to receive such compensation except for the requirements described in subparagraph (A) or (B) of paragraph (2);

"(B) are identified pursuant to a State worker profiling system as individuals likely to exhaust regular unemployment compensation; and

"(C) are participating in self-employment assistance activities which—

"(i) include entrepreneurial training, business counseling, and technical assistance; and

"(ii) are approved by the State agency; and

"(D) are actively engaged on a full-time basis in activities (which may include training) relating to the establishment of a business and becoming self-employed;

"(4) the aggregate number of individuals receiving the allowance under the program does not at any time exceed 5 percent of the number of individuals receiving regular unemployment compensation under the State law at such time;

"(5) the program does not result in any cost to the Unemployment Trust Fund (established by section 904(a) of the Social Security Act) in excess of the cost that would be incurred by such State and charged to such Fund if the State had not participated in such program; and

"(6) the program meets such other requirements as the Secretary of Labor determines to be appropriate.".

(b) CONFORMING AMENDMENTS.—

(1) Section 3304(a)(4) of such Code is amended—

(A) in subparagraph (D), by striking "; and" and inserting a semicolon;

(B) in subparagraph (E), by striking the semicolon and inserting "; and"; and

(C) by adding at the end the following new subparagraph:

"(F) amounts may be withdrawn for the payment of allowances under a self-employment assistance program (as defined in section 3306(t));".

(2) Section 3306(f) of such Code is amended—

(A) in paragraph (3), by striking "; and" and inserting a semicolon;

(B) in paragraph (4), by striking the period and inserting "; and"; and

(C) by adding at the end the following new paragraph:

"(5) amounts may be withdrawn for the payment of allowances under a self-employment assistance program (as defined in subsection (t)).".

(3) Section 303(a)(5) of the Social Security Act (42 U.S.C. 503(a)(5)) is amended by striking "; and" and inserting ": *Provided further,* That amounts may be withdrawn for the payment of allowances under a self-employment assistance program (as defined in section 3306(t) of the Internal Revenue Code of 1986); and".

(c) STATE REPORTS.—Any State operating a self-employment program authorized by the Secretary of Labor under this section shall report annually to the Secretary on the number of individuals who participate in the self-employment assistance program, the number of individuals who are able to develop and sustain businesses, the operating costs of the program, compliance with program requirements, and any other relevant aspects of program operations requested by the Secretary.

(d) REPORT TO CONGRESS.—Not later than 4 years after the date of the enactment of this Act, the Secretary of Labor shall submit a report to the Congress with respect to the operation of the program authorized under this section. Such report shall be based on the reports received from the States pursuant to subsection (c) and include such other information as the Secretary of Labor determines is appropriate.

(e) EFFECTIVE DATE; SUNSET.—

(1) EFFECTIVE DATE.—The provisions of this section and the amendments made by this section shall take effect on the date of the enactment of this Act.

(2) SUNSET.—The authority provided by this section, and the amendments made by this section,

shall terminate 5 years after the date of the enactment of this Act.

Subtitle B—Provisions Relating to Performance Under the Agreement

SEC. 511. DISCRIMINATORY TAXES.

It is the sense of the Congress that when a State, province, or other governmental entity of a NAFTA country discriminatorily enforces sales or other taxes so as to afford protection to domestic production or domestic service providers, such enforcement is in violation of the terms of the Agreement. When such discriminatory enforcement adversely affects United States producers of goods or United States service providers, the Trade Representative should pursue all appropriate remedies to obtain removal of such discriminatory enforcement, including invocation of the provisions of the Agreement.

SEC. 512. REVIEW OF THE OPERATION AND EFFECTS OF THE AGREEMENT.

(a) STUDY.—By not later than July 1, 1997, the President shall provide to the Congress a comprehensive study on the operation and effects of the Agreement. The study shall include an assessment of the following factors:

(1) The net effect of the Agreement on the economy of the United States, including with respect

III. Unemployment Insurance Program Letter No. 14-94 Provisions Relating to Self-Employment Assistance

U. S. Department of Labor Employment and Training Administration Washington, D.C. 20210	CLASSIFICATION UI
	CORRESPONDENCE SYMBOL TEURL
	DATE February 16, 1994

DIRECTIVE : UNEMPLOYMENT INSURANCE PROGRAM LETTER NO. 14-94

TO: : ALL STATE EMPLOYMENT SECURITY AGENCIES

FROM : MARY ANN WYRSCH
Director
Unemployment Insurance Service

SUBJECT : North American Free Trade Agreement Implementation Act (P.L. 103-182) - Provisions Affecting the Federal-State Unemployment Compensation (UC) Program relating to Self-Employment Assistance

1. Purpose. To advise State agencies of the provisions of the North American Free Trade Agreement Implementation Act which affect the Federal-State UC Program.

2. References. The Federal Unemployment Tax Act (FUTA); Title III of the Social Security Act (SSA); the Federal-State Extended Unemployment Compensation Act of 1970 (EUCA), as amended; Section 9152 of P.L. 100-203; Section 507 of the North American Free Trade Agreement Implementation Act (NAFTA), P.L. 103-182; Unemployment Insurance Program Letter (UIPL) 29-83, Change 1; General Administration Letter (GAL) 7-94; and UI Occasional Paper 92-2.

3. Background. On December 8, 1993, the President signed into law the NAFTA, P.L. 103-182, which affects the UC program in two ways. First, NAFTA created a transitional adjustment assistance program designed to address worker dislocation caused by NAFTA. This aspect of NAFTA was addressed in GAL 7-94. Second, NAFTA amended Federal law to give States the option of permitting, for a five-year period, certain individuals to receive a payment from the State's unemployment fund for the purpose of assisting such individuals in establishing a business and becoming self-employed. It is this second aspect of NAFTA which is the subject of this UIPL.

4. Discussion.

a. In General. The "withdrawal standard" of Section 3304(a)(4), FUTA, and Section 303(a)(5), SSA, limits withdrawals (with specified exceptions not relevant here)

RESCISSIONS	EXPIRATION DATE
None	February 28, 1995

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from a State's unemployment fund to payments of "compensation" and prior to the enactment of NAFTA would have prohibited withdrawals for the purpose of paying self-employment allowances. The term "compensation" is defined in Section 3306(h), FUTA, as "cash benefits payable to individuals with respect to their unemployment." Due to this requirement that the payment be with respect to "unemployment," the withdrawal standard has previously, with one temporary exception, prohibited States from using unemployment funds to assist individuals in establishing themselves in self-employment.

The previous temporary exception was created by Section 9152 of P.L. 100-203, the Budget Reconciliation Act of 1987. P.L. 100-203 authorized three demonstration projects to test the feasibility of providing self-employment allowances, payable from a State's unemployment fund, to individuals. Only Massachusetts operated a demonstration project. The initial report on this project was issued in UI Occasional Paper 92-2, Self-Employment Programs for Unemployed Workers, and is available by writing Ingrid Evans, United States Department of Labor, Unemployment Insurance Service, 200 Constitution Ave. N.W., Room S-4231, Washington, D.C., 20210. A final report will be available in 1994.

NAFTA amended Federal law to allow payments to self-employed individuals under specified conditions during the five years following NAFTA's date of enactment. The report of the House Ways and Means Committee describes the intent behind the new self-employment provision:

> Providing States the authority to establish and operate self-employment programs would significantly benefit workers that may be dislocated because of the NAFTA. The traditional system of unemployment compensation is primarily designed to provide income support for workers who are temporarily laid off or expect to be unemployed for only a short time. However, as a result of the NAFTA, some workers may lose their jobs permanently and need additional tools besides the basic income maintenance provided by the unemployment insurance system in order to re-enter the work force. For some of those workers, access to a self-employment program would be the best path for them to re-enter the work force. This provision gives states the ability to add the tool of self-employment training and support to the options available to help speed the

> transition of dislocated workers back into the work force. [H. R. Rep. No. 361, Part 1, 103rd Cong. 1st Sess. 94 (1993).]

Specifically, Section 507, NAFTA, amended the withdrawal standard (and the definition of "unemployment fund" in Section 3306(f), FUTA) to provide that amounts may be withdrawn from the unemployment fund of a State "for the payment of allowances under a self-employment assistance program (as defined in section 3306(t)) . . ." FUTA. This exception to the withdrawal standard applies solely to the to the self-employment assistance (SEA) allowances described in Section 3306(t), FUTA, which was also added to FUTA by Section 507(a), NAFTA. Under new Section 3306(t)(1), SEA allowances are payable "in lieu of regular" UC for the purposes of assisting individuals in establishing a business and becoming self-employed.

b. Eligibility for SEA Allowances. SEA allowances are to be payable "in the same amount, at the same interval [e.g., payment with respect to a period will be made weekly if that is the State's usual practice for claims for regular UC or every other week if that is the usual practice], on the same terms, and subject to the same conditions as" regular UC. (Section 3306(t)(2), FUTA.) This "equal treatment" provision applies to all monetary and nonmonetary (including reporting and certification) eligibility requirements except where specifically prohibited by other provisions of Federal law pertaining to SEA allowances. It also applies to notice and appeal rights.

Since individuals engaged in self-employment activities will normally be disqualified if certain eligibility provisions for State UC are followed, Section 3306(t)(2), FUTA, provides that these provisions of State law shall not be followed. Specifically, the following provisions shall not apply:

> (1) State requirements relating to availability for work, active search for work, and refusal to accept work.
>
> (2) State requirements relating to disqualifying income are not applicable to income earned from self-employment by individuals claiming SEA allowances.

In addition, individuals in the SEA program will be considered to be "unemployed" for purposes of both Federal and State UC laws provided the individuals meet provisions

of State law subject to the above equal treatment provision and four additional eligibility provisions for SEA allowances discussed immediately below. (The effect of this requirement on Federal law is discussed below in item 4.f.)

Section 3306(t)(3), FUTA, contains the four additional eligibility provisions which individuals must meet to receive SEA allowances:

(1) They must be eligible to receive regular UC under the State law (or they would be eligible but for the requirements suspended by the SEA provisions at Section 3306(t)(2), FUTA, as discussed above). This is basically a restatement of the "equal treatment" requirement of Section 3306(t)(1), FUTA, and includes monetary as well as initial and continuing nonmonetary eligibility. For purposes of determining SEA eligibility, "regular compensation" includes UC for ex-servicemembers (UCX) and former Federal employees (UCFE). (See item 4.g below.)

Since the SEA allowance is "in lieu of" regular UC, the total amount of SEA allowances that individuals may receive is equal to their maximum benefit amount of regular UC less any regular UC previously received. Similarly, the weekly SEA allowance amount must equal the weekly benefit amount for regular UC. Also, SEA allowances and regular UC may not be paid for the same period.

The term "regular compensation" is defined in Section 205(2), EUCA, as "compensation payable to an individual under any State unemployment compensation law (including compensation payable pursuant to 5 U.S.C. chapter 85), other than extended compensation and additional compensation." Thus, individuals who have exhausted regular UC are ineligible for SEA allowances. Individuals may not receive SEA allowances in lieu of Federal-State extended benefits (EB), additional benefits (AB) entirely financed by the State, any wholly funded Federal extension of UC, or other types of compensation not meeting the definition of regular UC.

Individuals who are terminated from or voluntarily leave the SEA program may collect regular UC with respect to the benefit year (if otherwise eligible) until the total amount of regular UC paid and SEA paid equals the maximum benefit amount. Such individuals

may be paid EB if otherwise eligible. This is because, under 20 C.F.R. 615.5(a)(1), these individuals are "exhaustees" for EB purposes because they have received "all of the regular compensation that was payable under the applicable State law . . . ." Similarly, individuals who exhaust the maximum benefit amount as SEA program participants may also receive EB if otherwise eligible. Whether any of the individuals discussed in this paragraph are eligible for other Federal extensions will depend on the law creating the extension. Whether individuals are eligible for AB will be determined by State law.

(2) The individuals must be identified pursuant to a State worker profiling system as likely to exhaust regular UC. For further discussion of SEA profiling requirements, refer to items 4.d and 4.j of this UIPL.

(3) The individuals are participating in self-employment assistance activities which are approved by the State agency. State agency is defined in Section 3306(e), FUTA, as the authority "designated under a State law to administer the unemployment fund in such State." The activities which must be offered the individuals are entrepreneurial training, business counseling, and technical assistance. (Information concerning these activities may be found in UI Occasional Paper 92-2, which describes services provided to claimants participating in the self-employment demonstration programs in Washington and Massachusetts.) If these activities are not available, an individual pursuing self-employment will not be eligible for SEA allowances; determination of eligibility for regular UC for such individuals will be made under State law provisions relating to self-employment. The activities may be offered by either private or public entities.

An individual who fails to participate in a scheduled activity (e.g., failure to attend a scheduled training course) is not considered to be participating in SEA program activities. However, for purposes of receiving a SEA allowance, it is not always necessary for the individual to have actually participated in SEA program activities for the week claimed. What is, at a minimum, necessary is that the individual be participating in a program (approved by the State agency) which provides training programs on an ongoing

basis and allows individuals to avail themselves of other SEA program services when they are needed. As long as individuals are under such a program, even though no activities are scheduled for a given week, they will be considered to be participating in SEA program activities and may be paid SEA allowances. It is possible that an individual may be eligible for both regular UC and the SEA allowance. This will occur when the individual is participating in training related to self-employment which is also approved training under State law. In this instance, the State is free to determine whether regular UC or the SEA allowance will be paid as long the eligibility requirements for the respective program are met. However, in no instance may both regular UC and the SEA allowances be paid with respect to the same period.

Since States do not disqualify individuals under their regular UC laws for failure to participate in SEA program activities, the SEA "equal treatment" provision does not address what disqualifications States may impose in these cases. It is recommended that States disqualify these individuals from receipt of SEA allowances only for the week the failure to participate occurs. Such individuals may be eligible for regular UC for that week if State law provisions relating to regular UC are met. Individuals who fail to meet the participation requirement may be dropped by the State from the SEA program.

(4) They are actively engaged on a full-time basis in activities (which may include training) relating to the establishment of a business and becoming self-employed. The Department of Labor ("Department") is researching the relationship of this requirement to the Americans with Disabilities Act. When this research is completed, guidance on what constitutes a "full-time basis" will be provided.

As is the case with failing to participate in SEA activities, States do not currently disqualify individuals under their regular UC laws for failure to actively engage on a full-time basis relating to the establishment of a business and becoming self-employed. Therefore, the SEA "equal treatment" provision does not address what disqualifications States may impose in these cases. It is recommended that States disqualify these individuals from receipt

of SEA allowances only for the week the failure to actively engage on a full-time basis occurs. Such individuals may be eligible for regular UC for that week if State law provisions relating to regular UC are met. Individuals who fail to meet the "full-time" requirement may be dropped by the State from the SEA program.

c. 5 Percent Rule. Section 3306(t)(4), FUTA, places a limitation on the number of individuals in a State who may receive SEA allowances. Specifically, it provides that the aggregate number of individuals receiving the allowance must "not at any time exceed 5 percent of the number of individuals receiving regular unemployment compensation under the State law at such time . . . ." The Department will monitor this "5 percent test" on a monthly basis. Therefore, States must use at least a monthly measurement period as well. The calculation relates to individuals actually receiving (i.e., paid) SEA for the week as a percent of those receiving regular UC for the same week. Thus, for example, if 10,000 individuals receive regular UC (including UCFE and UCX) for a given week, then no more than 500 may receive SEA allowances (including UCFE and UCX claimants). (Note: the 5 percent figure is not arrived at by taking 5 percent of the sum of the number of individuals receiving SEA and the number of individuals receiving regular UC.)

The 5 percent figure is an express limitation which the State may not exceed. Therefore, States must monitor SEA allowance payments closely to assure that the 5 percent limitation is not exceeded. The Department recommends that new individuals not be added to the SEA program if it appears the 5 percent threshold may be exceeded.

d. No Cost to Unemployment Trust Fund (UTF). Section 3306(t)(5), FUTA, places an additional requirement on the States as a condition of paying SEA allowances. It provides that the payment of SEA allowances must not result in any cost to the UTF "in excess of the cost that would be incurred by such State and charged to such [Unemployment Trust] Fund if the State had not participated in" the SEA program. Put simply, payment of SEA allowances may not result in any additional benefit charges to the UTF. This limitation applies only to the benefit costs associated with the payment of SEA/regular UC. It does not apply to the charging of SEA allowances to employers.

Since individuals successfully establishing themselves in self-employment will not collect EB, the UTF will accrue some savings to the Extended Unemployment Compensation Account and the State's account. However, since EB is not always payable in a State, the Department has determined that this "no cost" requirement will be met only if:

(1) The State implements a profiling system which assures that only claimants likely to exhaust regular UC will receive SEA allowances. An inadequate profiling system where those likely to not exhaust regular UC are allowed to receive SEA allowances will not meet the "no cost" requirement.

(2) The State creates "participation requirements" designed to assure SEA allowances are paid only to those who actually participate in the SEA program. Participation requirements for determining if an individual is actively engaged on a full-time basis in SEA activities must be at least as stringent as the able and available requirements for regular UC; otherwise the SEA program will not meet the "no cost" requirement.

More information on what is required of States in these areas is described in item 4.j below.

e. State Reports. Section 507(c), NAFTA, provides that any State operating a SEA program authorized by the Secretary of Labor must report annually to the Secretary the number of individuals who participate in the SEA program, the number of individuals who are able to develop and sustain businesses (e.g., business survival data), the cost of operating the SEA program, and compliance with program requirements. The report must also contain other relevant data needed by the Department, including data related to business income, number of employees and wages paid in the new businesses, and incidence and duration of unemployment after business start-up.

State reports will be submitted with respect to a calendar year and will be due the June 30 following the report year. This means the first report may be for only part of a year. For example, if a State's SEA program is effective April 1, 1994, then the first annual report will be due on June 30, 1995 and will cover a nine-month period.

Failure to submit the report as required will create an issue under Section 303(a)(6), SSA, which requires that, as

a condition of receipt of administrative grants for the UC program, State law provide for "the making of such reports, in such form and containing such information, as the Secretary of Labor may from time to time require . . . ."

Under Section 507(d), NAFTA, the Secretary of Labor is required to submit a report to Congress with respect to the SEA program not later than four years after the date of enactment of NAFTA. Since NAFTA was enacted on December 8, 1993, this report is due no later than December 8, 1997. This report will be based on the reports from the States operating SEA programs.

f. Individuals Receiving SEA considered to be Unemployed. As noted in item 4.a, Section 3306(h) defines "compensation" as "cash benefits payable to individuals with respect to their unemployment." Payments to self-employed individuals are not compensation since they are not payable with respect to unemployment. However, under Section 3306(t)(2)(c), FUTA, individuals to whom the SEA allowances are payable "are considered to be unemployed for the purposes of Federal and State laws applicable to unemployment compensation, as long as such individuals meet the requirements" of Section 3306(t). The effect of this provision is that, with respect to SEA, individuals are considered to be unemployed and payments made to them are considered to be "compensation." Thus, the term "compensation" is considered to include individuals eligible for SEA allowances. The term "regular compensation" does not, however, include SEA allowances. This is because under Section 3306(t)(1), FUTA, SEA is payable "in lieu of" regular UC.

g. Equal Treatment Requirements Elsewhere in Federal Law. In addition to the SEA "equal treatment" requirement in Section 3306(t)(2), FUTA, Federal law contains two other equal treatment requirements mandating payment of compensation "in the same amount, on the same terms, and subject to the same conditions" as UC payable under State law. One requirement is found in Section 3304(a)(6)(A), FUTA, and pertains to payment of UC based on services performed for State and local governments and certain nonprofit entities, commonly called "reimbursing" employers. The other requirement is found in 5 U.S.C. § 8502(b) and pertains to payment of UCX and UCFE. As noted in item 1.f, above, the term "compensation" is considered to include SEA allowances. Therefore, individuals who perform services covered under these two additional "equal treatment" provisions must be given the option of receiving SEA

allowances. The payment of SEA allowances does not require an amendment to the UCFE/UCX agreement.

The "equal treatment" requirement contained in Section 3306(t)(2), FUTA, provides that SEA allowances will be "payable in the same amount, at the same interval, on the same terms, and subject to the same conditions, as regular unemployment compensation under the State law . . . ." Thus, SEA allowances must be paid to all eligible individuals to whom regular UC is payable under State law, including individuals who performed services to which Section 3304(a)(6)(A), FUTA, and 5 U.S.C. chapter 85 apply.

These equal treatment requirements extend to all aspects related to the payment of SEA.

h. Financing of SEA Allowances. It will be necessary for States to review their laws to determine how the allowances will be financed. Financing depends on the type of employer for which the individual receiving the allowance previously performed services.

(1) Experience Rated Employers. Section 3303(a)(1), FUTA, requires, as a condition of employers in a State obtaining the additional credit against the Federal unemployment tax, that no reduced contribution rate be assigned an employer, except on the basis of "experience with respect to unemployment or other factors bearing a direct relation to unemployment risk . . . ." All but one of the existing experience rating systems consist of charging payments of compensation or benefit wages to an employer who had previously provided employment to the compensated individual.

As noted in item 1.f, under Section 3306(t)(2)(c), FUTA, individuals to whom the SEA allowance is payable "are considered to be unemployed for the purposes of Federal and State laws applicable to unemployment compensation . . . ." Under this provision, SEA allowances reflect "experience with respect to unemployment or other factors bearing a direct relation to unemployment risk" for purposes of Section 3303(a)(1), FUTA. Therefore, the measurement of an employer's experience through charges based on SEA allowances is appropriate.

In charging SEA allowances, States must use the same method of charging (e.g., charging base period

employers proportionately) and noncharge in the same situations (e.g., noncharging claims where the individual has voluntarily quit) as apply to regular UC. To fail to do this would raise an issue under the "uniform method" requirement of Section 3303(a)(1), FUTA. See UIPL 29-83, Change 1, dated September 24, 1991.

The Department will address the issue of whether SEA allowances may be noncharged when it develops a comprehensive noncharging policy.

(The one experience rating system not using payments of compensation or benefit wages is Alaska which uses a payroll decline system. The Department believes this system will not be affected by the payment of SEA allowances.)

(2) Reimbursing Employers. Section 3309(a)(2), FUTA, provides that costs "of compensation attributable under the State law" to service performed for State and local governments and nonprofit organizations to which that section pertains must be reimbursed by such entities. Since, as discussed in item 1.f, SEA allowances are considered to be compensation, this requirement also applies to SEA allowances.

(3) Federal Military and Civilian Employers. Under 5 U.S.C. § 8509(b), moneys in the Federal Employees Compensation Account shall be "available only for the purpose of making payments to States pursuant to agreements" with the Secretary of Labor. Since payments of SEA are payments of compensation for purposes of Federal law, SEA allowances attributable to Federal military or civilian service may be charged to Federal employers.

i. Payment of Administrative Costs. Costs of administering SEA allowances (including those paid to UCFE and UCX claimants) are payable from grants received for the administration of State's UC law under Title III of the SSA. Costs of providing SEA program services such as entrepreneurial training, business counseling and technical assistance are not, however, payable from these Title III funds.

j. Required Plan. Section 3306(t)(6), FUTA, provides that a State SEA program must meet "such other requirements as the Secretary of Labor determines to be appropriate." Secretary's Order No. 4-75 (40 FR 18515) gives the Department the authority to make this determination. The Department has determined that, prior to implementing a SEA program, the Department must approve a State plan. This approval process will assure an orderly start-up of the SEA program in a State. To be approved the plan must contain:

(1) A description of the profiling system used to identify SEA program participants. The State has three options for choosing a profiling system:

(A) Using elements of the statistical model developed by the Department for purposes of providing technical assistance in implementing Section 303(j), SSA. (Section 303(j), SSA, requires States to establish and use a system of profiling all new claimants for regular UC.) The report on the profiling model, Profiling Dislocated Workers for Early Referral to Reemployment Services by Kelleen Worden (October 6, 1993), is available from the appropriate Regional Office. If this model is used, States must re-estimate the coefficients using State data.

(B) A statistical model developed by the State.

(C) Another profiling method developed by the State.

Regardless of which option is chosen, the State must demonstrate that its system has a high degree of accuracy for purposes of meeting the cost-neutrality requirement discussed in item 4.d. For this reason, the State must submit with its plan a baseline analysis of historical data indicating the extent to which the exhaustion rate of individuals identified by the proposed system exceeds the exhaustion rate of the population of all beneficiaries under the regular UC program. The determination of whether the system is sufficiently accurate will be made by the Department.

(2) Assurances that the annual report will be submitted as required and contain such information as required by this UIPL.

(3) A description of participation requirements including:

(A) The structured set of services provided to individuals in the SEA program. The description must address the working relationship of the State agency with any entity (such as a State economic development agency or an agency administering the Job Training Partnership Act) providing services under the SEA program.

(B) A description of what actions (such as certification procedures) the States will take to assure SEA participants are engaged "on a full-time basis" in self-employment activities.

(4) Legislative language implementing the SEA program consistent with the requirements of this UIPL. (Draft language is provided in Attachment II and a Commentary in Attachment III.)

(5) A description of the source (and amount of) funds for paying for SEA program activities such as entrepreneurial training, business counseling, and technical assistance, and assurances that Title III, SSA, funds will not be used for these activities.

(6) Assurances that the payment of SEA allowances will not create any additional benefit costs to the UTF.

Since no State may commence operation of a SEA program without approval of a plan by the Department, States may expedite implementation of the SEA program by submitting their plans prior to obtaining legislation. Although the Department may provide provisional approval of a plan prior to enactment, it will not approve any plan until certified copies of SEA legislation are provided by the State. Any modifications to an approved plan are to be submitted to the Department.

Proposed plans and modifications to approved plans are to be submitted to the appropriate Regional Office.

k. Counting of SEA Claims for EB Trigger Purposes. SEA claimants are to be included in the calculation of the insured unemployment rate (IUR) for purposes of determining whether EB is payable in a State.

1. Reporting Requirements. Any changes required in reporting to the Department will be addressed in future issuances.

m. Effective Date and Termination Date of SEA Programs. Under Section 507(e), NAFTA, the provisions of Federal law relating to SEA programs are effective on the date of enactment of NAFTA. In addition, these provisions provide only temporary exceptions to the withdrawal standard. The authority to operate SEA programs expires five years after the date of enactment of NAFTA. Since NAFTA was enacted on December 8, 1993, the SEA program provisions were effective on that date and expire on December 8, 1998.

5. Action Required. The establishment of SEA programs is optional for States. However, States must enact enabling legislation and obtain this Department's approval of a plan prior to implementing a SEA program.

6. Inquiries. Inquiries should be directed to the appropriate Regional Office.

7. Attachments.

I. TEXT OF SECTION 507, NAFTA.

II. DRAFT LANGUAGE TO IMPLEMENT A SELF-EMPLOYMENT ASSISTANCE PROGRAM.

III. COMMENTARY ON THE DRAFT LANGUAGE TO IMPLEMENT A SELF-EMPLOYMENT ASSISTANCE PROGRAM.

TEXT OF SECTION 507, NAFTA

Sec 507. **Treatment of Self-Employment Assistance Programs**

(a) GENERAL RULE.--Section 3306 of the Internal Revenue Code of 1986 is amended by adding at the end the following new subsection:

"(t) SELF-EMPLOYMENT ASSISTANCE PROGRAM.--For the purposes of this chapter, the term 'self-employment assistance program' means a program under which--

"(1) individuals who meet the requirements described in paragraph (3) are eligible to receive an allowance in lieu of regular unemployment compensation under the State law for the purpose of assisting such individuals in establishing a business and becoming self-employed;

"(2) the allowance payable to individuals pursuant to paragraph (1) is payable in the same amount, at the same interval, on the same terms, and subject to the same conditions, as regular unemployment compensation under the State law, except that--

"(A) State requirements relating to availability for work, active search for work, and refusal to accept work are not applicable to such individuals;

"(B) State requirements relating to disqualifying income are not applicable to income earned from self-employment by such individuals; and

"(C) such individuals are considered to be unemployed for the purposes of Federal and State laws applicable to unemployment compensation,

as long as such individuals meet the requirements applicable under this subsection;

"(3) individuals may receive the allowance described in paragraph (1) if such individuals--

"(A) are eligible to receive regular unemployment compensation under the State law, or would be eligible to receive such compensation except for the requirements described in subparagraph (A) or (B) of paragraph (2);

"(B) are identified pursuant to a State worker profiling system as individuals likely to exhaust regular unemployment compensation; and

"(C) are participating in self-employment assistance activities which--

"(i) include entrepreneurial training, business counseling, and technical assistance; and

"(ii) are approved by the State agency; and

"(D) are actively engaged on a full-time basis in activities (which may include training) relating to the establishment of a business and becoming self-employed;

"(4) the aggregate number of individuals receiving the allowance under the program does not at any time exceed 5 percent of the number of individuals receiving regular unemployment compensation under the State law at such time;

"(5) the program does not result in any cost to the Unemployment Trust Fund (established by section 904(a) of the Social Security Act) in excess of the cost that would be incurred by such State and charged to such Fund if the State had not participated in such program; and

"(6) the program meets such other requirements as the Secretary of Labor determines to be appropriate.".

(b) CONFORMING AMENDMENTS.--

(1) Section 3304(a)(4) of such Code is amended--

(A) in subparagraph (D), by striking "; and" and inserting a semicolon;

(B) in subparagraph (E), by striking the semicolon and inserting "; and"; and

(C) by adding at the end the following new subparagraph:

"(F) amounts may be withdrawn for the payment of allowances under a self-employment assistance program (as defined in section 3306(t));".

(2) Section 3306(f) of such Code is amended--

(A) in paragraph (3), by striking "; and" and inserting a semicolon;

(B) in paragraph (4), by striking the period and inserting "; and"; and

(C) by adding at the end the following new paragraph:

"(5) amounts may be withdrawn for the payment of allowances under a self-employment assistance program (as defined in subsection (t)).".

(3) Section 303(a)(5) of the Social Security Act (42 U.S.C. 503(a)(5)) is amended by striking "; and" and inserting ": Provided further, That amounts may be withdrawn for the payment of allowances under a self-employment assistance program (as defined in section 3306(t) of the Internal Revenue Code of 1986); and".

(c) STATE REPORTS.--Any State operating a self-employment program authorized by the Secretary of Labor under this section shall report annually to the Secretary on the number of individuals who participate in the self-employment assistance program, the number of individuals who are able to develop and sustain businesses, the operating costs of the program, compliance with program requirements, and any other relevant aspects of program operations requested by the Secretary.

(d) REPORT TO CONGRESS.--Not later than 4 years after the date of enactment of this Act, the Secretary of Labor shall submit a report to the Congress with respect to the operation of the program authorized under this section. Such report shall be based on the reports received from the States pursuant to subsection (c) and include such other information as the Secretary of Labor determines is appropriate.

(e) EFFECTIVE DATE; SUNSET.--

(1) EFFECTIVE DATE.--The provisions of this section and the amendments made by this section shall take effect on the date of the enactment of this Act.

(2) SUNSET.--The authority provided by this section, and the amendments made by this section, shall terminate 5 years after the date of the enactment of this Act.

ATTACHMENT II TO UIPL 94-

DRAFT LANGUAGE TO IMPLEMENT A SELF-EMPLOYMENT ASSISTANCE PROGRAM

States wishing to amend their UC law to add the optional SEA program provisions may use the following draft language. A Commentary is provided in Attachment III.

Section ___. SELF-EMPLOYMENT ASSISTANCE PROGRAM

(a) Definitions. As used in this section--

(1) "Self-employment assistance activities" means activities (including entrepreneurial training, business counseling, and technical assistance) approved by the commissioner in which an individual identified through a worker profiling system as likely to exhaust regular benefits participates for the purpose of establishing a business and becoming self-employed.

(2) "Self-employment assistance allowance" means an allowance, payable in lieu of regular benefits and from the unemployment fund established under section _____ [enter relevant section], to an individual participating in self-employment assistance activities who meets the requirements of this section.

(3) "Regular benefits" means benefits payable to an individual under this Act (including benefits payable to Federal civilian employees and to ex-servicemembers pursuant to 5 U.S.C. chapter 85) other than additional and extended benefits.

(4) "Full-time basis" shall have the meaning contained in regulations prescribed by the commissioner.

(b) Amount of self-employment assistance allowance. The weekly allowance payable under this section to an individual will be equal to the weekly benefit amount for regular benefits otherwise payable under section _____ of this Act. The sum of (1) the allowance paid under this section and (2) regular benefits paid under this Act with respect to any benefit year shall not exceed the maximum benefit amount as established by section _____ with respect to such benefit year.

(c) Eligibility for self-employment assistance allowance. The allowance described in subsection (a) shall be payable to an individual at the same interval, on the same terms, and subject to the same conditions as regular benefits under this Act, except that--

(1) the requirements of sections _____ [enter relevant sections] relating to availability for work, active search for work, and refusal to accept work are not applicable to such individual;

(2) the requirements of section _____ [enter relevant section] relating to self-employment income are not applicable to income earned from self-employment by such individual;

(3) an individual who meets the requirements of this section shall be considered to be unemployed under section _____ [enter relevant section]; and

(4) an individual who fails to participate in self-employment assistance activities or who fails to actively engage on a full-time basis in activities (which may include training) relating to the establishment of a business and becoming self-employed shall be disqualified for the week such failure occurs.

(d) Limitation on receipt of self-employment assistance allowances. The aggregate number of individuals receiving the allowance under this section at any time shall not exceed 5 percent of the number of individuals receiving regular benefits. The commissioner shall, through regulations, prescribe such actions as are necessary to assure the requirements of this subsection are met.

(e) Financing costs of self-employment assistance allowances. Allowances paid under this section shall be charged to employers as provided under provisions of this Act relating to the charging of regular benefits.

(f) Effective date and termination date. The provisions of this section will apply to weeks beginning after the date of enactment or weeks beginning after any plan required by the United States Department of Labor is approved by such Department, whichever date is later. The authority provided by this section shall terminate as of the end of the week preceding the date when Federal law no longer authorizes the provisions of this section, unless such date is a Saturday in which case the authority shall terminate as of such date.

COMMENTARY ON THE DRAFT LANGUAGE TO IMPLEMENT A SELF-EMPLOYMENT ASSISTANCE PROGRAM

This commentary should be used in conjunction with Section 4 of this UIPL.

States will need to make adjustments in the draft language to accommodate State law conventions. Blanks have been provided for inserting cites to relevant sections of the State law.

(a) Definitions.

(1) Self-employment assistance activities. These activities are defined consistent with Section 3306(t)(3)(C) and (D), FUTA. States should note that the approval of the State agency is limited to the self-employment "activities" themselves. States may not base a denial of approval on factors unrelated to the self-employment assistance activities.

(2) Self-employment assistance allowance. This section defines the SEA allowance and establishes that such allowances are to be paid from the State's unemployment fund. States may also wish to consider whether to amend the section of State law which governs withdrawals from the unemployment fund.

(3) Regular Benefits. A definition of "regular benefits" (or "regular compensation") is necessary since SEA allowances are payable "in lieu of" regular compensation. State law may already contain a definition of regular benefits in which case the addition of this definition may not be not necessary. Some State laws contain a definition of regular benefits in the sections pertaining to EB. In these cases, the State will need to determine whether the definition is limited to the EB section, and, therefore, whether a cross-reference is necessary.

(4) Full-time basis. Since the Department is not at this time providing a specific definition of "full-time basis," it is recommended that States reserve the right to prescribe the definition in regulations in order to assure consistency with Federal law.

(b) Amount of self-employment assistance allowance. This section governs the weekly and maximum amount of SEA allowance payable. It assures that SEA allowances are paid "in the same amount" as regular UC. It also clarifies the

relationship between payments of regular UC and SEA allowances with respect to a benefit year.

(c) Eligibility for self-employment assistance allowance. This section contains the "equal treatment" requirement of Section 3306(t)(2), FUTA (except for the requirement that SEA allowances be paid "in the same amount" which is contained in subsection (b) above). It also contains the three exceptions to the "equal treatment" requirement which are found in subparagraphs (A) through (C) of Section 3306(t)(2), FUTA.

By cross referencing the definition of "self-employment assistance activities," this provision should assure payment only to those participating in such activities. It also contains the requirement of Section 3306(t)(3)(D) that the individual be actively engaged in a full-time basis in activities relating to the establishment of a business and becoming self-employed.

States are free to establish their own disqualifications for failure to meet these requirements. States should note that, like unavailability for work, failure to participate may be only a temporary condition which should not necessarily result in an indefinite denial. Conversely, quitting the SEA program may be grounds for a duration disqualification. The draft language provides for a disqualification only for the week the failure occurred.

States also have the option of dropping an individual from the SEA program for failure to meet SEA requirements. This may be appropriate if, for example, the individual misses training necessary to commence self-employment activities.

(d) Limitation on receipt of self-employment assistance allowances. This section implements section 3306(t)(4), FUTA, which limits the number of individuals receiving SEA allowances at any given time to 5 percent of the number of individuals receiving regular UC. Giving the commissioner authority to create regulations to meet this requirement provides flexibility to the agency to assure that necessary data will be collected as required by this Department and that the five percent limit will not be exceeded.

(e) Financing costs of SEA allowances. Since State UC law may provide only for the financing of regular UC and not SEA allowances, it may be necessary to describe the financing mechanism for the allowances. The draft language uses the same mechanism as is used for regular UC.

Draft language for the noncharging of SEA allowances is not provided at this time as the Department is not addressing the issue of whether such allowances may be noncharged at this time.

(f) Effective Date and Termination Date. Since SEA allowances may be paid only after enactment of State law and approval by this Department, it will be necessary to specify that the allowances will not become payable until both conditions are met. The draft language assures that SEA allowances will not become payable until the first week after both conditions are met.

Since the authority under NAFTA for SEA programs terminates five years after the date of enactment of NAFTA, it is recommended that States "sunset" any SEA provisions. The draft language provided does not provide a definite expiration date since States may wish to continue operating a SEA program if the Federal authority is extended either on a temporary or permanent basis. States may, however, wish to include a specific expiration date. The draft language takes into account an expiration of Federal legislative authority which falls on a weekday by providing that the program will terminate as of the end of the week preceding the week containing the ending date of the Federal authority. If, however, the ending date of the Federal authority is a Saturday, then the State must end its SEA program no later than midnight on such Saturday.

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